३१५

(मिनिस्ट्री ऑफ फायनान्स डिपार्टमेंट ऑफ रेव्हेन्यू, सेंट्रल बोर्ड ऑफ डायरेक्ट टॅक्सेस, केंद्र शासन, नवी दिल्ली यांचे सन २००२-०३ या वित्तिय वर्षाचे वेतनातून आयकर कपातीबाबतचे परिपत्रक केंद्र शासनाच्या पुढे नमूद केलेल्या वेबसाईटवरुन परिचालनासाठी उपलब्ध करुन घेण्यात आले आहे. त्यांची छपाई होऊन परिचालीत होण्यास आठवडयाभराचा कालावधी लागेल. दरम्यान महाराष्ट्र शासनाच्या वेब साईटवर www.maharashtra.gov.in, इन्ट्रानेट साईट, वित्त विभाग वेबसाईट http://finance.mah.nic.in आणि केंद्र शासन वेब साईट http://finmin.nic.in/the_ministry/dept_revenue/cbdt/tds2002.pdf या संकेतस्थळी उपलब्ध आहे. सदर वेब साईटहून प्रस्तुत परिपत्रक उपलब्ध करुन घेऊन पुढील कार्यवाही करावी.)

**क्रमांक : आयकर २०.०२/प्र.क्र. १४०/अर्थबळ**

**महाराष्ट्र शासन,**
वित्त विभाग,
मंत्रालय, मुंबई ४०० ०३२.
दिनांक : ६ जानेवारी, २००३.

माहितीसाठी व मार्गदर्शनासाठी --

१. मा. राज्यपालांचे कार्यालय,
२. मुख्य मंत्र्यांचे सचिव,
३. मुख्य सचिवांचे स्वीय सहाय्यक,
४. मंत्रालयातील सर्व विभागांचे सचिव,
५. मंत्रालयाच्या निरनिराळया विभागाच्या अधीन असलेले सर्व विभाग प्रमुख व कार्यालय प्रमुख,
६. सर्व मंत्री व राज्य मंत्री याचे स्वीय सहायक,
७. सचिव, महाराष्ट्र लोकसेवा आयोग,
८. सचिव, महाराष्ट्र विधानमंडळ सचिवालय, मुंबई,
९. प्रबंधक, मूळ न्याय शाखा, उच्च न्यायालय, मुंबई,
१०. प्रबंधक, अपील शाखा, उच्च न्यायालय, मुंबई,
११. सर्व जिल्हयांचे जिल्हाधिकारी,
१२. सर्व जिल्हा परिषदांचे मुख्य कार्यकारी अधिकारी,
१३. मुख्य लेखापाल, मुंबई महानगरपालिका, मुंबई,
१४. सर्व महानगरपालिकांचे मुख्य लेखापाल,
१५. महालेखापाल-१ (लेखापरीक्षा), महाराष्ट्र, मुंबई,
१६. महालेखापाल-१(लेखा व अनुज्ञेयता), महाराष्ट्र, मुंबई,
१७. महालेखापाल-२ (लेखापरीक्षा), महाराष्ट्र, नागपूर,
१८. महालेखापाल-२ (लेखा व अनुज्ञेयता), महाराष्ट्र, नागपूर,
१९. अधिदान व लेखा अधिकारी, मुंबई,
२०. निवासी लेखापरीक्षा अधिकारी, मुंबई-
२१. निवडनस्ती (अर्थबळ)

त्यांना अशी विनंती करण्यात येते की, केंद्र सरकारच्या या परिपत्रकातील माहिती त्यांनी त्यांच्या प्रशासकीय नियंत्रणाखालील सर्व संबंधितांच्या निदर्शनास आणावी.

आपला,

**स.म. शिवदास,**
सह सचिव, वित्त विभाग

**CIRCULAR NO.13/2002**

**F.No. 275/192/2002-IT(B)**
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes
.....

New Delhi, the 23rd December, 2002

**SUBJECT: INCOME-TAX DEDUCTION FROM SALARIES DURING THE FINANCIAL YEAR 2002-2003 UNDER SECTION 192 OF THE INCOME-TAX ACT, 1961.**

…………..

Reference is invited to Circular No.15/2001 dated 12.12.2001 wherein the rates of deduction of income-tax from the payment of income under the head "Salaries" under Section 192 of the Income-tax Act, 1961, during the financial year 2001-2002, were intimated. The present Circular contains the rates of deduction of income-tax from the payment of income chargeable under the head "Salaries" during the financial year 2002-2003 and explains certain related provisions of the Income-tax Act.

## 2. FINANCE ACT,2002

According to the Finance Act, 2002, income-tax is required to be deducted under Section 192 of the Income-tax Act 1961 from income chargeable under the head "Salaries" for the financial year 2002-2003 (i.e. Assessment Year 2003-2004) at the following rates:

**RATES OF INCOME-TAX**

| | |
|---|---|
| 1. Where the total income does not exceed Rs.50,000/-. | Nil |
| 2. Where the total income exceeds Rs.50,000 but does not exceed Rs.60,000/-. | 10 per cent, of the amount by which the total income exceeds Rs.50,000/- |
| 3. Where the total income exceeds Rs.60,000/- but does not exceed Rs.1,50,000/-. | Rs.1,000/- plus 20 per cent of the amount by which the total income exceeds Rs.60,000/-. |
| 4. Where the total income exceeds Rs.1,50,000/-. | Rs.19,000/- plus 30 per cent of the amount by which the total income exceeds Rs.1,50,000/-. |

**Surcharge on income tax:**

The amount of income-tax computed in accordance with the preceding provisions of this paragraph shall be reduced by the amount of rebate of income tax calculated under Chapter VIII and the income tax so reduced shall be increased by a surcharge at the rate of five percent of such income tax where the total income exceeds sixty thousand rupees.

However, the total amount payable as income-tax and surcharge shall not exceed the total amount payable as income tax on a total income of Rs.60,000/- by more than the amount of income that exceeds Rs.60,000/-.

Surcharge is payable by both resident and non-resident assessees.

## 3. SECTION 192 OF THE INCOME-TAX ACT, 1961: BROAD SCHEME OF TAX DEDUCTION AT SOURCE FROM "SALARIES" ETC.

**Method of Tax Calculation:**

3.1 Every person who is responsible for paying any income chargeable under the head "Salaries" shall deduct income-tax on the estimated income of the assessee under the head "Salaries" for the financial year 2002-2003. The income-tax is required to be calculated on the basis of the rates given above and shall be deducted on average at the time of each payment. No tax will, however, be deducted at source in any case unless the estimated salary income including the value of perquisites, for the financial year exceeds Rs.50,000/-. (Some typical examples of computation of tax are given at **Annexure-I**).

**Payment of Tax on Non-monetary Perquisites by Employer:**

3.2 Finance Act, 2002 has given the employer the option to pay the tax on non-monetrary perquisites given to an employee. With effect from 1.6.2002, the employer may, at his option, make payment of the tax on such perquisites himself without making any TDS from the salary of the employee. The employer will have to pay such tax at the time when such tax was otherwise deductible i.e. at the time of payment of income chargeable under the head salaries to the employee.

**Computation of Average Income Tax:**

3.3 For the purpose of making the payment of tax mentioned in para 3.2 above, tax is to be determined at the average of income tax computed on the basis of rate in force for the financial year, on the income chargeable under the head "salaries", including the

value of perquisites for which tax has been paid by the employer himself.

**ILLUSTRATION:**

Suppose that the income chargeable under the head 'salary' of an employee for the year inclusive of all perquisites is Rs.2,40,000/-, out of which, Rs.40,000/- is on account of non-monetary perquisites and the employer opts to pay the tax on such perquisites as per the provisions discussed in para 3.2 above.

**STEPS:**

| | |
|---|---|
| Income Chargeable under the head Salary inclusive of all perquisites: | 2,40,000 |
| Tax on Total Salaries(including surcharge): | 48,300 |
| Average Rate of Tax [(48,300/2,40,000) X 100]: | 20.12% |
| Tax payable on Rs.40,000/- ( 20.12% of 40,000) : | 8,050 |
| Amount required to be deposited each month : (8,050 / 12) | 671 |

**The tax so paid by the employer shall be deemed to be TDS made from the salary of the employee.**

**Salary From More Than One Employer:**

3.4 Sub- section (2) of section 192 deals with situations where an individual is working under more than one employer or has changed from one employer to another. It provides for deduction of tax at source by such employer (as the tax payer may choose) from the aggregate salary of the employee who is or has been in receipt of salary from more than one employer. The employee is now required to furnish to the present/chosen employer details of the income under the head "Salary" due or received from the former/ other employer and also tax deducted at source therefrom, in writing and duly verified by him and by the former/other employer. The present employer will be required to deduct tax at source on the aggregate amount of salary (including salary received from the former or other employer).

**Relief When Salary Paid in Arrear or Advance:**

3.5 Under sub-section (2A) of section 192 where the assessee, being a Government servant or an employee in a company, co-operative society, local authority, university,

institution, association or body is entitled to the relief under Sub-section (1) of Section 89, he may furnish to the person responsible for making the payment referred to in Para (3.1), such particulars in Form No. 10E duly verified by him, and thereupon the person responsible as aforesaid shall compute the relief on the basis of such particulars and take the same into account in making the deduction under Para(3.1) above.

Explanation :- For this purpose "University means a University established or incorporated by or under a Central, State or Provincial Act, and includes an institution declared under section 3 of the University Grants Commission Act, 1956(3 of 1956), to be University for the purposes of the Act.

**Furnishing of Declaration by Taxpayer in Form 12C**

3.6 Sub-section (2B) of S 192 enables a taxpayer to furnish particulars of income under any head other than "Salaries" and of any tax deducted at source thereon in the prescribed form (No.12C) vide **Annexure II**. Such income should not be a loss under any such head other than the loss under the head "Income from House Property" for the same financial year. The person responsible for making payment (DDO) shall take such other income and tax, if any, deducted at source from such income, and the loss, if any, under the head "Income from House Property" into account for the purpose of computing tax deductible under section 192 of the Income-tax Act. It is, however, provided that this sub-section shall not in any case have the effect of reducing the tax deductible, except where the loss under the head "Income from House Property" has been taken into account, from income under the head "Salaries" below the amount that would be so deductible if the other income and the tax deducted thereon had not been taken into account'.

In other words, the DDO can take into account only the loss from House Property for working out the amount of total tax to be deducted. While taking into the account the loss from House Property, the DDO shall ensure that the assessee files declaration in Form No.12 C and encloses therewith a computation of such loss from House Property.

Sub-section (2C) lays down that a person responsible for paying any income chargeable under the head “salaries” shall furnish to the person to whom such payment is made a statement giving correct and complete particulars of perquisites or profits in lieu of salary provided to him and the value thereof in such form and manner as may be prescribed. **(Annexure-III A& B). These forms are required to be filed by the employee along with the Return of Income for the relevant year.**

**Conditions for Claim of Deduction of Interest on Borrowed Capital for Computation of Income From House Property**

3.7(i) For the purpose of computing income / loss under the head `Income from House Property' in respect of a self-occupied residential house, a normal deduction of Rs.30,000/- is allowable in respect of Interest on borrowed capital. However, a deduction on account of Interest up to a maximum limit of Rs.1,50,000/- is available if such loan has been taken on or after 1.4.1999 for constructing or acquiring the residential house and the construction or acquisition of the residential unit out of such loan has been completed within three years from the end of the Financial Year in which capital was borrowed. Such higher deduction is not allowable in respect of Interest on capital borrowed for the purposes of repairs or renovation of an existing residential house. To claim the higher deduction in respect of Interest upto Rs.1,50,000/-, a further condition has been added by the Finance Act, 2002. It is now required that the employee should furnish a certificate from the person to whom any Interest is payable on the capital borrowed, specifying the amount of Interest payable by such employee for the purpose of construction or acquisition of the residential house or for conversion of a part or whole of the capital borrowed which remains to be repaid as a new loan.

3.7(ii)The essential conditions necessary for availing higher deduction of interest of Rs.1,50,000/- are that the amount of capital must have been borrowed on or after 01.4.1999 and the acquisition or construction of residential house must have been completed within three years from the end of the financial year in which capital was borrowed. There is no stipulation regarding the date of commencement of construction. Consequently, the construction of the residential house could have commenced before 01.4.1999 but, as long as its construction/acquisition is completed within three years, from the end of the financial year in which capital was borrowed the higher deduction would be available in respect of the capital borrowed after 1.4.1999. It may also be noted that there is no stipulation regarding the construction/ acquisition of the residential unit being entirely financed by capital borrowed on or after 01.4.1999.The loan taken prior to 01.4.1999 will carry deduction of interest upto Rs.30,000/ only. However, in any case the total amount of deduction of Interest on borrowed capital will not exceed Rs.1,50,000/- in a year.

**Adjustement for Excess or Shortfall of Deduction:**

3.8 The provisions of sub-section (3) of Section 192 allow the deductor to make adjustments for any excess or shortfall in the deduction of tax already made during the financial year, in subsequent deductions for that employee within that financial year itself.

**TDS on Payment of Balance Under Provident Fund and Supperannuation Fund:**

3.9 The trustees of a Recognized Provident Fund, or any person authorized by the regulations of the Fund to make payment of accumulated balances due to employees, shall, in cases where sub-rule(1) of rule 9 of Part A of the Fourth Schedule to the Act applies, at the time when the accumulated balance due to an employee is paid, make therefrom the deduction specified in rule 10 of Part A of the Fourth Schedule.

3.10 Where any contribution made by an employer, including interest on such contributions, if any, in an approved Superannuation Fund is paid to the employee, tax on the amount so paid shall be deducted by the trustees of the Fund to the extent provided in rule 6 of Part B of the Fourth Schedule to the Act.

**Salary Paid in Foreign Currency:**

3.11 For the purposes of deduction of tax on salary payable in foreign currency, the value in rupees of such salary shall be calculated at the prescribed rate of exchange.

## 4.PERSONS RESPONSIBLE FOR DEDUCTING TAX AND THEIR DUTIES:

4.1. Under clause (i) of Section 204 of the Act the "persons responsible for paying" for the purpose of Section 192 means the employer himself or if the employer is a Company, the Company itself including the Principal Officer thereof.

4.2. The tax determined as per para 7 should be deducted from the salary u/s 192 of the Act.

**Deduction of Tax at Lower Rate:**

4.3. Section 197 enables the tax-payer to make an application in form No.13 to his Assessing Officer, and, if the Assessing Officer is satisfied that the total income of the tax-payer justifies the deduction of income-tax at any lower rate or no deduction of income tax, he may issue an appropriate certificate to that effect which should be taken into account by the Drawing and Disbursing Officer while deducting tax at source. In the absence of such a certificate furnished by the employee, the employer should deduct income tax on the salary payable at the normal rates: **(Circular No. 147 dated 28.10.1974.)**

**Deposit of Tax Deducted:**

4.4. According to the provisions of section 200, any person deducting any sum in accordance with the provisions of Section 192 or paying tax on non-monetary perquisites on behalf of the employee under Section 192(1A), shall pay the sum so deducted or tax so calculated on the said non-monetary perquisites, as the case may be, to the credit of the Central Government in prescribed manner (vide Rule 30 of the Income-tax Rules,1962). In the case of deductions made by, or, on behalf of the Government, the payment has to be made on the day of the tax-deduction itself. In other cases, the payment has to be normally made within one week of the deduction.

**Penalty for Failure to Deposit Tax Deducted:**

4.5 If a person fails to deduct the whole or any part of the tax at source, or, after deducting, fails to pay the whole or any part of the tax to the credit of the Central Government within the prescribed time, he shall be liable to action in accordance with the provisions of section 201. Sub-section (1A) of section 201 lays down that such person shall be liable to pay simple interest at fifteen per cent per annum w.e.f. 01.6.2001 on the amount of such tax from the date on which such tax was deductible to the date on which the tax is actually paid. Section 271C lays down that if any person fails to deduct tax at source, he shall be liable to pay, by way of penalty, a sum equal to the amount of tax not deducted by him. Further, section 276B lays down that if a person fails to pay to the credit of the Central Government within the prescribed time the tax deducted at source by him, he shall be punishable with rigorous imprisonment for a term which shall be between 3 months and 7 years, and with fine.

**Furnishing of Certificate for Tax Deducted:**

4.6 According to the provisions of section 203, every person responsible for deducting tax at source is required to furnish a certificate to the payee to the effect that tax has been deducted and to specify therein the amount deducted and certain other particulars. This certificate, usually called the “TDS certificate”, has to be furnished within a period of one month from the end of the relevant financial year. Even the banks deducting tax at the time of payment of pension are required to issue such certificates. In the case of employees receiving salary income including pension, the certificate has to be issued in Form No.16 which has been prescribed under Board's notification No.S.O.No.1062(E) dated 4.10.2002. It is, however, clarified that there is no obligation to issue the TDS certificate (Form 16) in case tax at source is not deductible/deducted by virtue of claims of exemptions and deductions. As per the amended section 192, the responsibility of providing correct and complete particulars of perquisites or profits in lieu of salary given to an

employee is placed on the person responsible for paying such income i.e., the person responsible for deducting tax at source. The form and manner of such particulars are prescribed in Rule 26A, Form12BA and Form 16 of the Income-tax Rules as amended by notification No. S.O. No.1062(E) dated 4.10.2002 **(copy enclosed as Annexure IIIA & IIIB).**

A new form (Form 12BA) stating the nature and value of perquisites is to be provided by the employer in case of salary above Rs.1,50,000/-. In other cases, the information would have to be provided by the employer in the amended Form 16 itself. In either case, Form 16 with Form 12BA or Form 16 by itself will have to be furnished within a period of one month from the end of relevant financial year.

An employer, who has paid the tax on perquisites on behalf of the employee as per the provisions discussed in paras 3.2 and 3.3, shall furnish to the employee concerned a certificate to the effect that tax has been paid to the Central Government and specify the amount so paid, the rate at which tax has been paid and certain other particulars in the amended Form 16.

The obligation cast on the employer under Section 192(2C) for furnishing a statement showing the value of perquisites provided to the employee is a serious responsibility of the employer, which is expected to be discharged in accordance with law and rules of valuation framed thereunder. Any false information, fabricated documentation or suppression of requisite information will entail consequences therefore provided under the law.

A specimen of these certificates is enclosed at **Annexure III**. These certificates are to be issued on the tax-deductor's own stationery within one month from the close of the financial year i.e. by April 30 of every year. If he fails to issue these certificates to the person concerned as required by section 203, he will be liable to pay, by way of penalty, under section 272A, a sum which shall be Rs.100/- for every day during which the failure continues.

**Mandatory Quoting of PAN and TAN:**

4.7 According to the provisions of section 203A of the Income-tax Act, it is obligatory for all persons responsible for deducting tax at source to obtain and quote the Tax-deduction Account No. (TAN) in the Challans, TDS-certificates, returns etc. Detailed instructions in this regard are available in this Department's Circular No.497 (F.No.275/118/87-IT(B) dated 9.10.1987). If a person fails to comply with the provisions of section 203A, he will be liable to pay, by way of penalty, under section 272BB, a sum of ten thousand rupees. Similarly, as per

Section 139A(5B), it is obligatory for persons deducting tax at source to quote PAN of the persons from whose income tax has been deducted in the statement furnished u/s 192(2C), certificates furnished u/s 203 and all returns prepared and delivered as per the provisions of Section 206 of the Income Tax Act, 1961.

**Annual Return of TDS:**

4.8. According to the provisions of section 206 of the Income-tax Act, read with rules 36A and 37 of the Income-tax Rules, the prescribed person in the case of every office of Government, the principal officer in the case of every company, the prescribed person in the case of every local authority or other public body or association, every private employer and every other person responsible for deducting tax under section 192, from "Salaries" shall, after the end of each financial year, prepare and deliver, by 31st May following the financial year, an annual return of deduction of tax to the designated/concerned Assessing Officer. This return has to be furnished in Form No.24. It may be noted that a copy of each of the TDS certificates issued during the financial year should be enclosed with the annual return. If a person fails to furnish in due time the annual return, he shall be liable to pay by way of penalty under section 272A, a sum which shall be Rs.100/- for every day during which the failure continues, so, however, that this sum shall not exceed the amount of tax which was deductible at source.

4.9. A return filed on a floppy, diskette, magnetic cartridge tape, CD-ROM or any other computer readable media as may be specified by the Board shall be deemed to be a return for the purposes of section 206 and the Rules made thereunder, and shall be admissible in any proceeding thereunder, without further proof of production of the original, as evidence of any contents of the original or of any fact stated therein. While receiving such returns on computer media, necessary checks by scanning the documents filed on computer media will be carried out and the media may be duly authenticated by the Assessing Officer.

***Challans* for Deposit of TDS:**

4.10. While making the payment of tax deducted at source to the credit of the Central Government, it may be ensured that the correct amount of income-tax is recorded in the relevant *challan*. It may also be ensured that the right type of *challan* is used. The relevant *challan* for making payment of tax deducted at source from salaries is No.9 with "Blue colour Band". Where the amount of tax deducted at source is credited to the Central Government through book adjustment, care should be taken to ensure that the correct amount of income-tax is reflected therein.

**TDS on Income from Pension:**

4.11. In the case of pensioners who receive their pension from a nationalized bank, the instructions contained in this circular shall apply in the same manner as they apply to salary-income. The deductions from the amount of pension on account of standard deduction under section 16 and the tax rebate under section 88B (in the case of pensioners, resident in India, who are 65 years of age or more : refer Para 6(18) ) will be allowed by the concerned bank at the time of deduction of tax at source from the pension, before making payment to the concerned pensioner. As regards the tax rebate under section 88 on account of contribution to Life Insurance, Provident Fund, NSC etc., if the pensioners furnish the relevant details to the banks, the tax rebate at the specified rate may also be allowed. Necessary instructions in this regard were issued by the Reserve Bank of India to the State Bank of India and other nationalized Banks vide RBI's Pension Circular (Central Series) No.7/C.D.R./1992 (Ref. CO:DGBA:GA(NBS) No.60/GA.64 (11CVL)-91/92) dated the 27th April, 1992, and, these instructions should be followed by all the branches of the Banks, which have been entrusted with the task of payment of pensions. Further all branches of the banks are bound u/s 203 to issue certificate of tax deducted in Form 16 to the pensioners also vide CBDT **circular no. 761 dated 13.1.98.**

**Important Circulars:**

4.12. Where Non-Residents are deputed to work in India and taxes are borne by the employer, if any refund becomes due to the employee after he has already left India and has no bank account in India by the time the assessment orders are passed, the refund can be issued to the employer as the tax has been borne by it **: Circular No. 707 dated 11.7.1995.**

4.13. TDS certificates issued by Central Government departments which are making payments by book adjustment, should be accepted by the Assessing Officers if they indicate that credit has been effected to the Income Tax Department by book adjustment and the date of such adjustment is given therein. In such cases, the Assessing Officers may not insist on details like *challan* numbers, dates of payment into Government Account etc., but they should in any case satisfy themselves regarding the genuineness of the certificates produced before them : **Circular No. 747 dated 27.12.1996.**

4.14 There is a specific procedure laid down for refund of payments made by the deductor in excess of taxes deducted at source, vide **Circular No. 285 dated 21.10.1980.**

4.15 In respect of non-residents, the salary paid for services rendered in India shall be regarded as income

earned in India. It has been specifically provided in the Act that any salary payable for rest period or leave period which is both preceded or succeeded by service in India and forms part of the service contract of employment will also be regarded as income earned in India.

## 5. ESTIMATION OF INCOME UNDER THE HEAD "SALARIES"

### 5.1 Income chargeable under the head "Salaries".

(1) The following income shall be chargeable to income-tax under the head "Salaries" :

(a) any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not;

(b) any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it became due to him.

(c) any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier previous year.

(2) For the removal of doubts, it is clarified that where any salary paid in advance is included in the total income of any person for any previous year it shall not be included again in the total income of the person when the salary becomes due. Any salary, bonus, commission or remuneration, by whatever name called, due to, or received by, a partner of a firm from the firm shall not be regarded as "Salary".

**Definition of Salary:**

(3) "Salary" includes wages, fees, commissions, perquisites, profits in lieu of, or, in addition to salary, advance of salary, annuity or pension, gratuity, payments in respect of encashment of leave etc. It also includes the annual accretion to the employee's account in a recognized provident fund to the extent it is chargeable to tax under rule 6 of Part A of the Fourth Schedule of the Income-tax Act. Contributions made by the employer to the account of the employee in a recognized provident fund in excess of 12% of the salary of the employee, along with interest applicable, shall be included in the income of the assessee for the previous year. Other items included in salary, profits in lieu of salary and

perquisites are described in Section 17 of the Income-tax Act. The scope of the term profit in lieu of salary has been amended so as not to include interest on contributions or any sum received under a Keyman insurance policy including the sumallocated by way of bonus on such policy. For the purposes of this sub-clause, the expression Keyman insurance policy shall have the meaning assigned to it in clause (10D) of section 10. It may be noted that, since salary includes pensions, tax at source would have to be deducted from pension also, if otherwise called for. However, no tax is required to be deducted from the commuted portion of pension as explained in clause (3) of para 5.2 of this Circular.

(4) Section 17 defines the terms "salary", "perquisite" and "profits in lieu of salary".

Perquisite includes:

a) The value of rent free accommodation provided to the employee by his employer;
b) The value of any concession in the matter of rent in respect of any accommodation provided to the employee by his employer;
c) The value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases:

    i) By a company to an employee who is a director of such company;
    ii) By a company to an employee who has a substantial interest in the company;
    iii) By an employer (including a company)to an employee, who is not covered by (i) or (ii) above and whose income under the head Salaries ( whether due from or paid or allowed by one or more employers), exclusive of the value of all benefits and amenities not provided by way of monetary payment, exceeds Rs.50,000/-.

The rules relating to valuation of such benefits and amenities have been prescribed in Rule 3. It is further provided that 'profits in lieu of salary' shall include amounts received in lump sum or otherwise, prior to employment or after cessation of employment for the purposes of taxation. The rules for valuation of perquisite are as under :-

**I. Accommodation** :- Under the old Rule 3, for purpose of

valuation of the perquisite of unfurnished accommodation all employees were divided into three categories: I) Central & State Government employees, ii) employees of Public Sector undertaking and Semi-government organization and iii) others including, private sector employees. Under the said Rule for purposes of valuation of perquisite of accommodation, employees are divided into two categories: I) Govt. & State Govt. employees; and ii)Others.

For employees of the Central and State government the value of perquisite shall be equal to the licence fee charged for such accommodation.

For all others, i.e., those salaried taxpayers not in employment of the Central government and the State government, the valuation of perquisite in respect of accommodation would be at prescribed rates. The rate is 10% of 'salary' in cities having population exceeding four lakhs as per the 1991 census. For other places, the perquisite value would be 7.5.% of salary.

The scope of the word "accommodation" has been widened by clarifying that it includes a house, flat, farm house, hotel accommodation, motel, service apartment guest house, a caravan, mobile home, ship etc. However, the value of any accommodation located in a remote area provided to an employee working at a mining site or an on-shore oil exploration site or a project execution site or an accommodation provided in an off-shore site will not be treated as a perquisite. A project site for the purposes of this sub-rule means a site of project upto the stage of its commissioning. A "remote area" means an area located at least 40 kilometers away from a town having a population not exceeding 20,000 as per the latest published all India census. Off-shore sites of similar nature do not have to meet any requirement of distance.

The definition of “salary” for calculating perquisite value is the same as per earlier Rules. The only change is that medical allowances and reimbursement for treatment of serious illness as prescribed in the proviso below Section 17(2)(vi) have now been excluded from the definition of salary for this purpose. For furnished accommodation, the provision of valuation of perquisite of furnishings, fittings and furniture at 10% of original cost per annum or actual hire charges is continued.

In case of employer other than Central and State Govt., where accommodation is taken on lease or rent by employer, actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower, as reduced by the rent, if any, actually paid by the employee, is taken as perquisite.

If an accommodation is provided by an employer in a

hotel the value of the benefit in such a case shall be 24% of the annual salary or the actual charges paid or payable to such hotel, whichever is lower, for the period during which such accommodation is provided as reduced by any rent actually paid or payable by the employee. However, where in cases the employee is provided such accommodation for a period not exceeding in aggregate fifteen days on transfer from one place to another, no perquisite value for such accommodation provided in a hotel shall be charged. It may be clarified that while services provided as an integral part of the accommodation, need not be valued separately as perquisite, any other services over and above that for which the employer makes payment or reimburses the employee shall be valued as a perquisite as per the residual clause. In other words, composite tariff for accommodation will be valued as per these Rules and any other charges for other facilities provided by the hotel will be separately valued under the residual clause. . Also, if on account of an employee's transfer from one place to another, the employee is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value as per the table prescribed in Rule 3 of the Income Tax Rules, for a period upto 90 days. However, after that the value of perquisite shall be charged for both accommodations as prescribed.

**II Motor Car:**

(a) Where the motor car is owned or hired by the employer and is used wholly and exclusively in the performance of his official duties, no perquisite arises in the hands of the employee, subject to maintenance of documents as prescribed in sub-para (f) below. No perquisite arises even if the motor car is owned by the employee himself but the actual running and maintenance charges (including remuneration of the chauffer, if any) are reimbursed to him by the employer, provided that the motor car is used wholly and exclusively for official purposes and the documents as prescribed in sub-para (f) below are maintained.

(b) Where the motor car is owned or hired by the employer and is used exclusively for the private or personal purpose of the employee, the value of perquisite would be equal to the actual amount of expenditure incurred by the employer on the running and maintenance of the motor car (including remuneration of the chauffer, if any), as increased by the amount representing 10% of the actual cost of the motor car on account of normal wear and tear and as reduced by any amount charged from the employee for such use.

(c) Where the motor car is owned by the employee but the actual running and maintenance charges (including remuneration of the chauffer, if any) are reimbursed to him by the employer and such reimbursement is for the use of

the vehicle partly for official and partly for personal or private purposes, the value of perquisite shall be the actual amount of expenditure incurred by the employer as reduced by the amounts specified in **column ( I )** of the Table below.

(d) Where the motor car is owned or hired by the employer and is used partly in the performance of his duties and partly for personal or private purposes, the value of perquisite shall be determined as per the Table below:

| | **Small car (upto 1.6ltrs engine capacity)** | **Large car (above 1.6 ltrs engine capacity)** | **If Chauffeur provided by employer to run the motor car, an additi-onal amount as below is also charged** |
|---|---|---|---|
| (I) Car owned/ hired by employer and expenses on maintenance and running are met or reimbursed by the employer | **Rs. 1200 per month** | **Rs.1600 per month** | **Rs.600 per month** |
| (II)Car owned / hired by employer but the exp-enses on running and maintenance for such private or personal use are fully met by the employee. | **Rs.400 per month** | **Rs.600 per month** | **Rs.600 per month** |

(e) However, where a second or additional cars are provided, such other cars shall be deemed to be for exclusively personal use and the value of perquisite shall be computed accordingly.

(f) In a situation described in para(c)above, if it is claimed that the expenses on running and

maintenance of the motor car for official purposes are higher than the amount mentioned in Column I of the Table above, such higher amount can be claimed as a deduction from the actual amount of expenditure incurred by the employer, subject to the fulfillment of the following conditions:

***(i} the employer has maintained complete details of journeys undertaken for official purpose which may include date of journey, destination, mileage and the amount of expenditure incurred thereon; and***

***(ii) the employer gives a certificate that the expenditure was incurred wholly and exclusively for the performance of his official duties.***

**III Personal attendants etc.:** The old rules provided for valuation of perquisite of free services of a sweeper, a gardener and a watchman at Rs.120 per month. Under the new rules, the value of free service of all personal attendants including a sweeper, gardener, and a watchman is to be at actual cost to the employer. Where the attendant is provided at the residence of the employee, full cost will be taxed as perquisite in the hands of the employee irrespective of the degree of personal service rendered to him. Any amount paid by the employee for such facilities or services shall be reduced from the above amount.

**IV Gas, electricity & water:** For free supply of gas, electricity and water for household consumption, the rules provide that the amount paid by the employer to the agency supplying the amenity shall be the value of perquisite. However, when the supply is made from employer's own resources, under the old rules the value of perquisite was taken as Nil. There was also a separate provision in the old rules for valuation at 6.25% of salary of the taxpayer for part official use. This has been discontinued. Under the new rules even where the supply is made from the employer's own resources, the manufacturing cost per unit incurred by the employer would be the value of perquisite. Any amount paid by the employee for such facilities or services shall be reduced from the above amount.

**V Free or concessional education:** The old rules already provide that value of free education facility would be the expenditure incurred by the employer. Under the new rules free or concessional education shall be valued in a manner assuming that such expenses are borne by the employee, and would cover cases where an employer may be running, maintaining or directly or indirectly financing the

educational institution. Any amount paid by the employee for such facilities or services shall be reduced from the above amount. However, where such educational institution itself is maintained and owned by the employer or where such free educational facilities are provided in any institution by reason of his being in employment of that employer, the value of the perquisite to the employee shall be determined with reference to the cost of such education in a similar institution in or near the locality if the cost of such education or such benefit per child exceeds Rs.1000/- p.m.

**VI Free or concessional journeys:**

The Perquisite value of free or concessional journeys provided by an employer engaged in carriage of passengers or goods shall be taken as the value at which such benefit or amenity is offered by such undertaking to the public, as reduced by any amount actually paid by the employee. The conveyance may be owned, leased or made available by any other arrangement by the employer. However, no perquisite on account of free or concesional journeys arises in the case of the employees of the Railways. Journey tickets for leave travel, tours and transfers which are already exempt under sections 10(5) and 10(14) would continue to be exempt.

**VII Interest free or concessional loans** - It is common practice particularly in financial institutions to provide interest free or concessional loans to employees. The value of such perquisite would be the excess of interest payable at prescribed interest rate over interest if any actually paid by the employee. The prescribed interest rate would now be 10% p.a. for loans for housing and conveyance and 13% p.a. for other loans. Perquisite value would be calculated on the basis of the maximum outstanding monthly balance by the simple interest method. For valuing perquisites under this rule, any other method of calculation and adjustment otherwise adopted by the employer shall not be relevant. The concessional rate of interest of 10% is applicable only in respect of such housing or conveyance loans which have been used for "acquiring capital assets" i.e., house or conveyance, as the case may be, and not for repairs thereof. In case of loans taken for repairs, renovations etc, the higher interest rate of 13% would be applicable for calculation of perquisite.

Small loans upto Rs. 20,000/- in the aggregate are exempt. Loans for medical treatment specified in Rule 3A are also exempt, provided the amount of loan for medical reimbursement is not reimbursed under any medical insurance scheme. Where any medical insurance reimbursement is received, the perquisite value at the rate of 13% shall be charged from the date of reimbursement on the amount reimbursed, but not repaid against the outstanding loan taken specifically for this

purpose.

**VIII Travelling, touring, accommodation and other holiday expenses** - It is increasingly common for employees to be provided with vacation and holiday facilities. The value of such perquisite shall be the expenditure incurred by the employer. This would also apply to official tours extended as a vacation and family members accompanying taxpayers on official tours. However, leave travel as per section 10(5) and enjoyment of holiday home facilities available uniformly to all classes of employees would remain exempt.

**IX Free meals** - The provision of free meals varies widely from uniform canteen food, coupons etc. to lavish hotel meals. The scheme of free meals as a staff welfare measure had been recognized and was admissible upto Rs.35 for each meal. The new rule does not treat as perquisite free meals if the cost per meal does not exceed Rs.50/-. Where any amount is recovered from the employee, such amount shall be reduced from the value of perquisite. Such free or subsidized meal should however be provided at office premises or through non-transferable vouchers meant for only meals during working hours. These vouchers should be provided by employers encashable only at an eatery, a restaurant or a cafe. Tea or similar non-alcoholic beverages and snacks - in the form of light refreshments during working hours are not charged as perquisite. Also, arrangements for meals in 'remote areas' as prescribed in para 5.1(I)and similar off-shore sites as specified, shall be exempt. However, expenditure on provision of free meals by the employer in excess of Rs.50/- should be treated as perquisite, as reduced by recoveries made from the employee.

**X Gift, voucher or token in lieu of gift** -The value of any gift, or voucher, or token in lieu of which such gift may be received by the employee or by member of his household on ceremonial occasions or otherwise shall be determined as the sum equal to the amount of such gift. However, where the value of such gift, voucher or token, as the case may be, is below Rs.5,000/- in the aggregate during the previous year, the value of perquisite shall be taken as nil.

**XI Credit card & Club expenses** - Credit card expenses of employees both business and personal, are often borne by employers. Such credit card payments would ordinarily be chargeable to tax as a perquisite. However, these expenses are often incurred to entertain customers and clients for the purposes of business. Therefore where such expenses on entertainment including meals are for purposes of business and proper records for the same are maintained no perquisite

would arise.

Club expenses of employees borne by employers are charged as perquisite in terms of section 17(2)(iv). It has been specifically provided in the rules that annual and periodical club fees paid by the employer will be chargeable as perquisite. However, to ensure that basic facilities for the health and recreation of employees are not hit, health clubs, sports facilities etc provided uniformly to all classes of employees by the employer at the employer's premises are exempt. The initial one time deposit or fees for corporate or institutional membership, where the benefit does not remain with a the employee after cessation of employment, are exempt. Where such expenses on entertainment including meals are for purposes of business and proper records for the same are maintained no perquisite would arise.

For credit card and club expenses to be exempt for business purposes, the following documentation needs to be maintained by the employer:

(a) complete details in respect of such expenditure including the date of expenditure and the nature of expenditure;

(b) a certificate by employer to the employee to the effect that the same was incurred wholly and exclusively for the performance of official duties.

**XII Use of assets:** It is common practice for an asset owned by the employer to be used by the employee. This perquisite is to be charged at the rate of 10% of the original cost of the asset as reduced by any charges recovered from the employee for such use. However, the user of Computers and Laptops would not give rise to any perquisite.

**XIII Transfer of assets:** Often an employee or member of his household benefits from the transfer of movable asset (not being shares or securities) at no cost or at a cost less than its market value from the employer. The difference between the original cost of the movable asset(not being shares or securities) and the sum, if any, paid by the employee, shall be taken as the value of perquisite. In case of a movable asset, which has already been put to use, the original cost shall be reduced by a sum of 10% of such original cost for every completed year of use of the asset. Owing to a higher degree of obsolescence, in case of computers and electronic gadgets, however, the value of perquisite shall be worked out by reducing 50% of the actual cost by the

reducing balance method for each completed year of use. Electronic gadgets in this case means data storage and handling devices like computer, digital diaries and printers. They do not include household appliance (i.e. white goods) like washing machines, microwave ovens, mixers, hot plates, ovens etc. Similarly, in case of cars, the value of perquisite shall be worked out by reducing 20% of its actual cost by the reducing balance method for each completed year of use.

**XIV Employee Stock Option Plan:** Prior to Finance Act, 2000, stock options were taxed at two stages i.e., as perquisite (on the amount representing the difference between the exercise price and the fair market value on the date of exercise), and as capital gains at the time of transfer of the same. With effect from 1.4.2001 (relevant to assessment year 2001-2002) onward, stock options issued as per guidelines of the Central Government are to be taxed only once, at the time of sale, as capital gains. In cases, where perquisite has been assessed with reference to exercise of the option by the employee under Section 17(2), the fair market value at the time of exercise of the option shall be the cost of acquisition of share for working out the capital gains. The relevant guidelines of the Central Government have been issued vide Notification No.1021(E) dt.11.10.2001. Stock options not in conformity with the above guidelines (non-qualified stock options) shall continue to be taxed at both the stages.

**XV Residual Clause:** A benefit or amenity not included in the rules shall be valued at the cost under an arm's-length transaction to the employer where the employer pays for the benefit or amenity. However, the benefit of conveyance to and from residence to place of work, periodicals and journals required for discharge of work and expenses on telephones including a mobile phone shall not be included in calculating perquisite value.

It is pertinent to mention that benefits specifically exempt u/s 10(13A), 10(5), 10(14), 17 etc. would continue to be exempt. These include benefits like travel on tour and transfer, leave travel, daily allowance to meet tour expenses as prescribed, medical facilities subject to conditions.

## 5.2 Incomes not included in the Head "Salaries"(Exemptions)

Any income falling within any of the following clauses shall not be included in computing the income from salaries for the purpose of Section 192 of the Act :-

(1) The value of any **travel concession or assistance** received by or due to an employee from his employer or former employer for himself and his family, in

connection with his proceeding (a) on leave to any place in India or (b) on retirement from service, or, after termination of service to any place in India is exempt under clause (5) of Section 10 subject, however, to the conditions prescribed in rule 2B of the Income-tax Rules, 1962.

For the purpose of this clause, "family" in relation to an individual means :

(i) The spouse and children of the individual; and

(ii) the parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.

It may also be noted that the amount exempt under this clause shall in no case exceed the amount of expenses actually incurred for the purpose of such travel.

(2) **Death-cum-retirement gratuity** or any other gratuity which is exempt to the extent specified from inclusion in computing the total income under clause (10) of Section 10.

(3) Any payment in **commutation of pension** received under the Civil Pension(Commutation) Rules of the Central Government or under any similar scheme applicable to the members of the civil services of the Union, or holders of civil posts/posts connected with defence, under the Union, or civil posts under a State, or to the members of the all India services/Defence Services, or, to the employees of a local authority or a corporation established by a Central, State or Provincial Act, is exempt under sub-clause (i) of clause (10A) of Section 10. As regards payments in commutation of pension received under any scheme of any other employer, exemption will be governed by the provisions of sub-clause (ii) of clause (10A) of section 10.

(4) Any payment received by an employee of the Central Government or a State Government, as **cash-equivalent of the leave salary** in respect of the period of earned leave at his credit at the time of his retirement on superannuation or otherwise, is exempt under sub-clause(i) of clause (10AA) of Section 10. In the case of other employees, this exemption will be determined with reference to the leave to their credit at the time of retirement on superannuation, or otherwise, subject to a maximum of ten months' leave. This exemption will be further limited to the maximum amount specified by the Government of India Notification No.S.O.1015(E) dated 27.11.1997 at Rs. 2,40,000/-.

(5) Under Section 10(10B), the **retrenchment compensation** received by a workman is exempt from income-tax subject to certain limits. The maximum amount of retrenchment compensation exempt is the sum calculated on the

basis provided in section 25F(b) of the Industrial Disputes Act, 1947 or any amount not less than Rs.50,000/- as the Central Government may by notification specify in the official gazette, whichever is less. These limits shall not apply in the case where the compensation is paid under any scheme which is approved in this behalf by the Central Government, having regard to the need for extending special protection to the workmen in the undertaking to which the scheme applies and other relevant circumstances. The maximum limit of such payment is Rs. 5,00,000 where retrenchment is on or after 1.1.1977.

(6) Under Section 10(10C), any payment received by an employee of the following bodies at the time of his voluntary retirement or termination of his service, in accordance with any scheme or **schemes of voluntary retirement** or in the case of public sector company , a scheme of voluntary separation, is exempted from income-tax to the extent that such amount does not exceed five lakh rupees:

a) A public sector company;
b) Any other company;
c) An Authority established under a Central, State or Provincial Act;
d) A Local Authority;
e) A Cooperative Society;
f) A university established or incorporated or under a Central, State or Provincial Act, or, an Institution declared to be a University under section 3 of the University Grants Commission Act, 1956;
g) Any Indian Institute of Technology within the meaning of Clause (g) of Section 3 of the Institute of Technology Act, 1961;
h) Such Institute of Management as the Central Government may by notification in the Official Gazette, specify in this behalf.

It may also be noted that where this exemption has been allowed to any employee for any assessment year, it shall not be allowed to him for any other assessment year. The exemption of amount received under VRS is extended to employees of the Central Government and State Government employees.

(7) Any **sum received under a Life Insurance Policy**, including the sum allotted by way of bonus on such policy other than any sum received under sub-section (3) of section 80DDA.

(8) any **payment from a Provident Fund** to which the Provident Funds Act, 1925 ( 19 of 1925), applies ( or from any other provident fund set up by the Central Government and notified by it in this behalf in the Official Gazette).

(9) Under Section 10(13A) of the Income-tax Act, 1961, any special allowance specifically granted to an assessee by his employer to meet **expenditure incurred on payment of rent** (by whatever name called) in respect of residential accommodation occupied by the assessee is exempt from Income-tax to the extent as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations. According to rule 2A of the Income-tax Rules, 1962, the quantum of exemption allowable on account of grant of special allowance to meet expenditure on payment of rent shall be:

(a) The actual amount of such allowance received by an employer in respect of the relevant period; or

(b) The actual expenditure incurred in payment of rent in excess of 1/10 of the salary due for the relevant period; or

(c) Where such accommodation is situated in Bombay, Calcutta, Delhi or Madras, 50% of the salary due to the employee for the relevant period; or

(d) Where such accommodation is situated in any other place, 40% of the salary due to the employee for the relevant period, whichever is the least.

For this purpose, "Salary" includes dearness allowance, if the terms of employment so provide,but excludes all other allowances and perquisites.

It has to be noted that only the expenditure actually incurred on payment of rent in respect of residential accommodation occupied by the assessee subject to the limits laid down in Rule 2A, qualifies for exemption from income-tax. Thus, house rent allowance granted to an employee who is residing in a house/flat owned by him is not exempt from income-tax. The disbursing authorities should satisfy themselves in this regard by insisting on production of evidence of actual payment of rent before excluding the House Rent Allowance or any portion thereof from the total income of the employee.

Though incurring actual expenditure on payment of rent is a pre-requisite for claiming deduction under section 10(13A), it has been decided as an administrative measure that salaried employees drawing house rent allowance upto Rs.3000/- per month will be exempted from production of rent receipt. It may, however, be noted that this concession is only for the purpose of tax-deduction at source, and, in the regular assessment of the employee, the Assessing Officer will be free to make such enquiry as he deems fit for the purpose of satisfying himself that the employee has incurred actual expenditure on payment of rent.

(10) Clause (14) of section 10 provides for exemption

of the following allowances :-

(i) Any special allowance or benefit granted to an employee to meet the **expenses incurred in the performance of his duties** as prescribed under Rule 2BB subject to the extent to which such expenses are actually incurred for that purpose.

(ii) Any allowance granted to an employee either to meet his personal expenses at the place of his posting or at the place he ordinarily resides or to **compensate him for the increased cost of living**, which may be prescribed and to the extent as may be prescribed.

However, the allowance referred to in (ii) above should not be in the nature of a personal allowance granted to the assessee to remunerate or compensate him for performing duties of a special nature relating to his office or employment unless such allowance is related to his place of posting or residence.

The CBDT has prescribed guidelines for the purpose of clauses (i) and (ii) of Section 10(14) vide notification No.SO617(E) dated 7th July, 1995 (F.No.142/9/95-TPL)which has been amended vide notification SO No.403(E) dt 24.4.2000 (F.No.142/34/99-TPL). The transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of duty is exempt to the extent of Rs.800 per month vide notification S.O.No. 395(E) dated 13.5.98

.

(11) Under Section 10(15)(iv)(i) of the Income-tax Act, interest payable by the Government on deposits made by an employee of the Central Government or a State Government or a public sector company from out of his retirement benefits, in accordance with such scheme framed in this behalf by the Central Government and notified in the Official Gazette is exempt from income-tax. By notification No.F.2/14/89-NS-II dated 7.6.89, as amended by notification No.F.2/14/89-NS-II dated 12.10.89, the Central Government has notified a scheme called **Deposit Scheme for Retiring Government Employees, 1989** for the purpose of the said clause.

(12)Clause (18) of Section 10 provides for exemption of any income by way of pension received by an individual or **family pension** received by any member of the family of an individual who has been in the service of the Central Government or State Government and has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award as may be specifically notified by the Central Government. Such notification has been made vide Notifications No.S.O.1948(E) dated 24.11.2000 and 81(E) dated 29.1.2001 which are enclosed as per Annexure IVA&IVB

(13) Under Section 17 of the Act, exemption from tax will also be available in respect of:-

(a) the value of any **medical treatment** provided to an employee or any member of his family, in any hospital maintained by the employer;

(b) any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or of any member of his family:

(i) in any hospital maintained by the Government or any local authority or any other hospital approved by the Government for the purposes of medical treatment of its employees;

(ii) in respect of the prescribed diseases or ailments as provided in Rule 3A(2) of I.T. Rules 1962 , in any hospital approved by the Chief Commissioner having regard to the prescribed guidelines as provided in Rule 3(A)(1)of I.T. Rule, 1962 :

In a case falling in sub-clause (ii)above, the employee shall attach with his return of income a certificate from the hospital specifying the disease or ailment for which medical treatment was required and the receipt for the amount paid to the hospital.

(c) premium paid by the employer in respect of medical insurance taken for his employees (under any scheme approved by the Central Government) or reimbursement of insurance premium to the employees who take medical insurance for themselves or for their family members (under any scheme approved by the Central Government);

(d) reimbursement, by the employer, of the amount spent by an employee in obtaining medical treatment for himself or any member of his family from any doctor, not exceeding in the aggregate Rs.15,000/- in an year.

(e) As regards medical treatment abroad, the actual expenditure on stay and treatment abroad of the employee or any member of his family, or, on stay abroad of one attendant who accompanies the patient, in connection with such treatment, will be excluded from perquisites to the extent permitted by the Reserve Bank of India. It may be noted that the expenditure incurred on travel abroad by the patient/attendant, it shall be excluded from perquisites only if the employee's gross total income, as computed before including the said expenditure, does not exceed Rs.2 lakhs.

For the purpose of availing exemption on expenditure incurred on medical treatment "hospital" includes a dispensary or clinic or nursing home. "Family" in relation

to an individual means the spouse and children of the individual. Family also includes parents, brothers and sisters of the individual if they are wholly or mainly dependant on the individual.

## 5.3 Deductions u/s 16 of the Act ( Standard Deduction)

Under Section 16 of the Income Tax Act, the standard deduction available is as under:

"In the case of an assessee whose income from salary, before allowing a deduction under this clause:

(a) does not exceed one lakh fifty thousand rupees, a deduction of a sum equal to thirty-three and one-third per cent of the salary or thirty thousand rupees, whichever is less;

(b) exceeds one lakh fifty thousand rupees but does not exceed three lakh rupees, a deduction of a sum of twenty five thousand rupees.

(c) exceeds three lakh rupees but does not exceed five lakh rupees, a deduction of a sum of twenty thousand rupees;

No standard deduction is available to an assessee whose income from salary exceeds 5 lakh rupees.

Explanation:- For the purposes of this clause, where salary is due from, or paid or allowed by, more than one employer, the deduction under this clause shall be computed with reference to the aggregate salary due, paid or allowed to the assessee and shall in no case exceed the amount specified under this clause,".

**Entertainment Allowance:**

A deduction is also allowed under clause (ii) of section 16 in respect of any allowance in the nature of an entertainment allowance specifically granted to the assessee by an employer, who is in receipt of a salary from the Government, a sum equal to one-fifth of his salary(exclusive of any allowance, benefit or other perquisite) or five thousand rupees whichever is less. The deduction hitherto available to non-government employees has been withdrawn.

**Tax On Employment:**

The tax on employment within the meaning of clause (2) of Article 276 of the Constitution of India, leviable by or under any law, shall also be allowed as a deduction in computing the income under the head "Salaries".

## 5.4 Deductions under chapter VI-A of the Act

The following deductions under Chapter VI-A of the Act are available:

(1) As per section 80CCC, where an assessee being an individual has in the previous year paid or deposited any amount out of his income chargeable to tax to effect or keep in force a contract for any **annuity plan of Life Insurance Corporation of India or any other insurer for receiving pension** from the Fund referred to in clause (23AAB) of section 10, he shall, in accordance with, and subject to the provisions of this section, be allowed a deduction in the computation of his total income, of the whole of the amount paid or deposited (excluding interest or bonus accrued or credited to the assessee's account, if any) as does not exceed the amount of ten thousand rupees in the previous year.

Where any amount paid or deposited by the assessee has been taken into account for the purposes of this section, a rebate with reference to such amount shall not be allowed under section 88.

(2) Under Section 80D, in the case of the following categories of persons, a deduction can be allowed for a sum not exceeding Rs.10,000/- per annum to the extent payment is made by cheque out of their income chargeable to tax to keep in force **an insurance on the health** of the categories of persons mentioned below provided that such insurance shall be in accordance with a scheme framed in this behalf by -

(a) the General Insurance Corporation of India formed under Section 9 of the General Insurance Business (Nationalization) Act, 1972 and approved by the Central Government in this behalf; or

(b) any other insurer and approved by the Insurance Regulatory and Development Authority established under sub-section (1) of Section 3 of the Insurance Regulatory and Development Authority Act, 1999.

The categories of persons are :

(a) where the assessee is an individual, any sum paid to effect or to keep in force an insurance on the health of the assessee or on the health of the wife or husband, dependent parents or dependent children of the assessee.

(b) where the assessee is a Hindu Undivided Family, any sum

paid to effect or to keep in force an insurance on the health of any member of the family.

However, the deduction can be allowed for a sum not exceeding Rs. 15,000/- per annum where the assessee or his wife or husband, or dependent parents or any member of the family (in case the assessee is a Hindu Undivided Family) is a senior citizen which means an individual resident in India who is of the age of sixty-five years or more at any time during the relevant previous year.

(3) Under Section 80DD an assessee, who is a resident in India being an individual or a Hindu Undivided Family has during the previous year -

(a) incurred any **expenditure for the medical treatment** (Including Nursing), training and rehabilitation of a handicapped dependant, or

(b) paid or deposited any amount under a Scheme framed in this behalf by the Life Insurance Corporation or any other insurer or Unit Trust of India subject to the conditions specified in sub-section (2) and approved by the Board in this behalf for the maintenance of handicapped dependent --

shall in accordance with and subject to the provisions of this section be allowed a deduction of a sum of forty thousand rupees in the previous year.

The handicapped dependent means a person who is a Relative (as defined in Section 2(41) of the I.T.Act,1961) of the individual or a member of HUF and is not dependent on any person other than such individual or HUF for his support and maintenance and is suffering from permanent physical disability (including blindness or mental retardation, specified in rule 11A of the Income Tax Rules 1962). The deduction will be available to individuals without any restriction with regard to their total income. The permanent physical disability or mental retardation of the dependent relative has to be certified by a physician, surgeon, oculist or a psychiatrist as the case may be, working in a Government hospital, including a Departmental dispensary or a hospital maintained by a local authority as per Explanation given below section 80DD. It would be sufficient if the employee furnishes a medical certificate from a Government Hospital and a declaration in writing duly signed by the claimant certifying the actual amount of expenditure on account of medical treatment (including nursing) training and rehabilitation of the handicapped dependent and receipt/acknowledgement for the amount paid or deposited in the specified schemes of LIC or UTI. Therefore, DDOs may not insist on production of vouchers/bills by the employees for having incurred expenditure on medical treatment of their handicapped

dependents for allowing the deduction u/s 80DD for the purpose of computing tax deductible at source **.(Ref.CBDT Circular No.775 dated 26.3.99)**

(4) Under Section 80DDB, where an assessee who is resident in India has, during the previous year, actually incurred any expenditure on the **medical treatment of such disease or ailment as may be specified** in rule 11DD made in this behalf by the Board --

(a) for himself or a dependent relative, in case the assessee is an individual,

(b) for any member of a Hindu Undivided Family in case the assessee is a Hindu Undivided Family -

The assessee shall be allowed a deduction of a sum of forty thousand rupees in respect of that previous year in which such expenditure was actually incurred. However, if the assessee or his dependent relative,or any member of the Hindu Undivided Family of the assessee, is a senior citizen, a deduction of a sum of Rs. 60,000 shall be allowed in respect of that previous year in which such expenditure was actually incurred. Such deduction shall be reduced by the amount received, if any, under an insurance from an insurer on the medical treatment of the person referred to above. The listed diseases as per the relevant Rule 11DD are specified neurological diseases, and 40% and above disability caused by cancer, full-blown AIDS, Chronic Renal Failure, Hemophilia and Thalassaemia.

Provided that no such deduction shall be allowed unless the assessee furnishes a certificate in such form and from such Authority as may be prescribed. The form is Form 10-I, and the Prescribed Authority is any doctor registered with the Indian Medical Association and holding Post-graduate qualifications.

For the purposes of this section, "dependent" means a person who is not dependent for his support or maintenance on any person other than the assessee.

(5) Under Section 80E of the Act a deduction will be allowed in respect of **repayment of loan taken for higher education**, subject to the following conditions:

(i) In computing the total income of an assessee, being an individual, there shall be deducted, in accordance with and subject to the provisions of this section, any amount paid by him in the previous year, out of his income chargeable to tax, by way of repayment of loan, taken by him from any financial institution or any approved charitable institution for the purpose of pursuing his higher education, or interest on such loan.

Provided that the amount which may be so deducted shall not exceed forty thousand rupees.

(ii) The deduction specified above shall be allowed in computing the total income in respect of the initial assessment year and seven assessment years immediately succeeding the initial assessment year or until the loan referred to above together with interest thereon is paid by the assessee in full, whichever is earlier.

For this purpose -

(a) "approved charitable institution" means an institution established for charitable purposes and notified by the Central Government under clause (2C) of section 10, or, an institution referred to in clause (a) of sub-section (2) of Section 80G.

(b) "financial institution" means a banking company to which the Banking Regulation Act, 1949 (10 of 1949) applies (including any bank or banking institution referred to in section 51 of that Act); or any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf;

(c) "higher education" means full-time studies for any graduate or post-graduate course in engineering medicine, management, or, for post-graduate course in applied sciences or pure sciences, including mathematics and statistics;

(d) "initial assessment year" means the assessment year relevant to the previous year, in which the assessee starts repaying the loan or interest thereon.

(6) **No deduction should be allowed by the D.D.O. from the salary income in respect of any donations made for charitable purposes.** The tax relief on such donations as admissible under section 80G of the Act, will have to be claimed by the tax payer in the return of income. However, D.D.O. on due verification may allow donations to following bodies to the extent of **50%** of the contribution:

i) Jawaharlal Nehru Memorial Fund.
ii)The Prime Minister's Drought Relief Fund
iii)The National Children's Fund,
Iv)The Indira Gandhi Memorial Trust,
v) The Rajiv Gandhi Foundation.

and to the following bodies to the extent of **100%** of the contribution:

i. National Defence Fund or The Prime Minister's National Relief Fund.

ii. The Prime Minister's Armenia Earthquake Relief Fund.

iii. The Africa (Public Contributions - India) Fund.

iv. The National Foundation for Communal Harmony.

v. Chief Minister's Earthquake Relief Fund - Maharashtra.

vi. National Blood Transfusion Council.

vii. State Blood Transfusion Council.

viii. Army Central Welfare Fund.

ix. Indian Naval Benevolent Fund.

x. Air Force Central Welfare Fund.

xi. The Andhra Pradesh Chief Minister's Cyclone Relief Fund - 1996.

xii. The National Illness Assistance Fund.

xiii. The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory as the case may be, subject to certain conditions.

xiv. The University or Educational Institution of national eminence approved by the Prescribed Authority.

xv. The National Sports Fund to be set up by Central Government.

xvi. The National Cultural Fund Set up by the Central Government.

xvii. The Fund for Technology Development and Application set by the Central Govt.

xviii. The National Trust for Welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple disabilities.

(7) Under Section 80GG of the Act an assessee is entitled to a deduction in respect of house rent paid by him for his own residence. Such deduction is permissible subject to the following conditions :-

(a) the assessee has not been in receipt of any House Rent Allowance specifically granted to him which qualifies for exemption under section 10(13A) of

the Act;

(b) the assessee files the declaration in Form No.10 BA. (Annexure-V )

(c) He will be entitled to a deduction in respect of house rent paid by him in excess of 10 per cent of his total income, subject to a ceiling of 25 per cent thereof or Rs. 2,000/- per month, whichever is less. The total income for working out these percentages will be computed before making any deduction under section 80GG.

(d) The assessee does not own:

(i) any residential accommodation himself or by his spouse or minor child or where such assessee is a member of a Hindu Undivided Family, by such family, at the place where he ordinarily resides or performs duties of his office or carries on his business or profession; or

(ii) at any other place, any residential accommodation being accommodation in the occupation of the assessee, the value of which is to be determined under sub-clause (i) of clause (a), or as the case may be, clause (b) of sub section (2) of section 23:

The Drawing and Disbursing Authorities should satisfy themselves that all the conditions mentioned above are satisfied before such deduction is allowed by them to the assessee. They should also satisfy themselves in this regard by insisting on production of evidence of actual payment of rent.

(8) Section 80L of the Income-tax Act allows **deduction of interest** from certain specified investments including interest on bank deposits and certain securities. A normal deduction of upto Rs. 12,000/- may be allowed. An additional deduction of Rs.3000/- for interest on Government Securities is separately available.

(9) Section 80U allows deduction of forty thousand rupees in computing the total income of a resident individual, who at the end of the previous year, is suffering from a **permanent physical disability** (including blindness) or is subject to mental retardation, being a permanent physical disability, or mental retardation, specified in rule 11D of the Income-tax Rules, 1962, which is certified by a physician, surgeon, oculist or psychiatrist as the case may be, working in a Government hospital and which has the effect of reducing considerably such individual's capacity for normal work or engaging in a gainful employment or occupation. The expression `Government hospital' will include a departmental dispensary or a hospital maintained by a Local Authority as

specified Section in 80DD(4).

## 6. TAX REBATE

An assessee, being an individual, will be entitled to tax rebates under Chapter VIII of the Act as given below:

(1) Payment of **insurance premium** to effect or to keep in force an insurance on the life of the individual, the wife or husband or any child of the individual.

(2) Any payment made to effect or to keep in force a contract for a **deferred annuity**, not being an annuity plan as is referred to in item (8) herein below on the life of the individual, the wife or husband or any child of the individual, provided that such contract does not contain a provision for the exercise by the insured of an option to receive a cash payment in lieu of the payment of the annuity;

(3) Any sum deducted from the salary payable by, or, on behalf of the Government to any individual, being a sum deducted in accordance with the conditions of his service for the purpose of securing to him a **deferred annuity** or making provision for his wife or children, in so far as the sum deducted does not exceed 1/5th of the salary;

(4) Any contribution made :

(a) by an individual to any **Provident Fund** to which the Provident Fund Act, 1925 applies;

(b) to any provident fund set up by the Central Government, and notified by it in this behalf in the Official Gazette, where such contribution is to an account standing in the name of an individual, or a minor, or of whom he is a guardian;

(c) by an employee to a Recognized Provident Fund;

(d) by an employee to an approved **superannuation fund**;

It may be noted that "contribution" to any Fund shall not include any sums in repayment of loan ;

(5) Any deposit in a ten year account or a fifteen year account under the Post Office Savings Bank **(Cumulative Time Deposit)** Rules, 1959, as amended from time to time, where such sums are deposited in an account standing in the name of an individual, or a minor, or of whom he is the guardian.

(6) Any subscription :-

(a) to any such **security of the Central Government** or

any such **deposit scheme** as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(b) to any such **saving certificates** as defined under section 2(c) of the Government Saving Certificate Act, 1959 as the Government may, by notification in the Official Gazette, specify in this behalf. Interest on NSC(VI Issue) and NSC(VIII I ssue) which is deemed investment also qualifies for the rebate.

(7) Any sum paid as contribution in the case of an individua l, for himself, spouse or any child,

(a) for participation in the **Unit Linked Insurance Plan, 1971** of the Unit Trust of India;

(b) for participation in any **unit-linked insurance plan of the LIC Mutual Fund** notified by the Central Government under clause (23D) of section 10.

(8) Any subscription made to effect or keep in force a contract for such **annuity plan of the Life Insurance Corporation** as the Central Government may by notification in the Official Gazette, specify;

(9) Any subscription not exceeding rupees ten thousand, made to any **units of any Mutual Fund**, notified under clause (23D) of section 10, by the Unit Trust of India established under the Unit Trust of India Act, 1963, under any plan formulated in accordance with any scheme as the Central Government, may, by notification in the Official Gazette, specify in this behalf;

(10). Any contribution made by an individual to any **pension fund** set up by any Mutual Fund notified under clause (23D) of section 10, or, by the Unit Trust of India established under the Unit Trust of India Act, 1963, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(11) Any subscription made to any such deposit scheme of, or, any contribution made to any such pension fund set up by, the **National Housing Bank**, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(12) Any subscription made to any such deposit scheme (not being a scheme the interest on **deposits** whereunder qualifies for deduction under section 80L), as the Central Government may, by notification in the Official Gazette, specify for the purpose of being floated by (a) **public sector companies** engaged in providing long-term finance for construction or purchase of houses in India for residential

purposes, or, (b) any authority constituted in India by, or, under any law, enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both.

(13) Any sums paid by an assessee for the purpose of **purchase or construction of a residential house property,** the income from which is chargeable to tax under the head "Income from house property" (or which would, if it has not been used for assessee's own residence, have been chargeable to tax under that head) where such payments are made towards or by way of any instalment or part payment of the amount due under any self-financing or other scheme of any Development Authority, Housing Board etc. The deduction will also be allowable in respect of re-payment of loans borrowed by an assessee from the Government, or any bank or Life Insurance Corporation, or National Housing Bank, or certain other categories of institutions engaged in the business of providing long term finance for construction or purchase of houses in India. Any repayment of loan borrowed from the employer will also be covered, if the employer happens to be a public company, public sector company or a university established by law or a college affiliated to such university, or a local authority or a cooperative society. The stamp duty, registration fee and other expenses incurred for the purpose of transfer shall also be covered. Payment towards the cost of house property, however, will not include, admission fee or cost of share or initial deposit or the cost of any addition or alteration to, or, renovation or repair of the house property which is carried out after the issue of the completion certificate by competent authority, or after the occupation of the house by the assessee or after it has been let out. Payments towards any expenditure in respect of which the deduction is allowable under the provisions of section 24 of the Income-tax Act will also not be included in payments towards the cost of purchase or construction of a house property. Where the house property in respect of which deduction has been allowed under these provisions is transferred by the tax-payer at any time before the expiry of five years from the end of the financial year in which possession of such property is obtained by him or he receives back, by way of refund or otherwise, any sum specified in section 88(2)(xv), no deduction under these provisions shall be allowed in respect of such sums paid in such previous year in which the transfer is made and the aggregate amount of deduction of income tax so allowed in the earlier years shall be added to the tax on the total income of the assessee with which he is chargeable for such assessment year. It may be noted that the amount which will qualify for tax rebate in respect of this item will not exceed **Rs.20,000/-.**

(14) subscription to **equity shares or debentures forming part of any eligible issue of capital** approved by the Board on an application made by a public company or as

subscription to any eligible issue of capital by any public finance institution in the prescribed form:

Provided that where a deduction is claimed and allowed under this clause with reference to the cost of any equity shares or debentures, the cost of such shares or debentures shall not be taken into account for the purposes of sections 54EA and 54EB.

Explanation: For the purposes of this clause -

(i) "eligible issue of capital" means an issue made by a public company formed and registered in India or a public financial institution and the entire proceeds of the purposes of developing, maintaining and operating an infrastructure facility or for generating, or for generating and distributing, power or for providing telecommunication services whether basic or cell

(ii) "infrastructure facility" shall have the meaning assigned to it in the Explanation to sub-section (4) of Section 80 1A.

(iii) "Public Company" shall have the meaning assigned to it in section 3 of the Companies Act, 1956 (1 of 1956);

(iv) "Public Financial Institution" shall have the meaning assigned to it in Section 4A of the Companies Act, 1956.

(15) Subscription to any **units of any mutual fund** referred to in clause (23D) of Section 10 and approved by the Board on an application made by such mutual fund in the prescribed form:

Provided that where a deduction is claimed and allowed under this clause with reference to the cost of units, the cost of such units shall not be taken into account for the purposes of section 54EA and 54EB:

Provided further that this clause shall apply if the amount of subscription to such units is subscribed only in the eligible issue of capital of any company.

Explanation: For the purposes of this clause - "eligible issue of capital" means an issue referred to in clause (i) of Explanation to clause (xvi) in sub-section (2) of section 88.

**Total Amount Qualifying for Rebate Under Section 88:**

(16) There is an overall limit of **Rs. 1,00,000/-** invested in various items mentioned in sub- paras (1) to (15) of para 6, which qualifies for rebate

under section 88. Out of this, amounts invested in items mentioned in sub-paras (1) to (13) can be up to a maximum of **Rs.70,000/-.** Further, installments paid towards purchase or construction of a residential house, as discussed in sub-para (13) would qualify for rebate only upto a maximum of **Rs. 20,000/-**

Investments in various items mentioned under para 6 can be made at any time during the year. The rebate under section 88 would be allowed on such aggregate amount, which does not exceed the total income of the relevant financial year.

**Rate of Rebate Under Section 88:**

(17) A graded system of tax-rebate under section 88 has been introduced by the Finance Act, 2002. The tax-rebate on the qualifying amount shall now be computed at the following rates:-

| | **Nature and level of Income** | **%age of sums invested to be allowed as rebate** |
|---|---|---|
| 1. | Where the gross total income does not exceed Rs. 1,50,000/- | 20% |
| 2. | Where the gross total income exceeds RS. 1,50,000/- but does not exceed RS. 5,00,000/- | 15% |
| 3. | Where the gross total income exceeds Rs. 5,00,000/- | Nil |
| 4. | In case of an **individual** , where the income under the head "salaries" does not exceed RS. 1,00,000/- (before allowing standard deduction) and is at least 90% of his gross total income. | 30% |

The above rates shall be applicable to all individuals including sportsmen, artists, authors, playwrights, etc. Higher rebate earlier allowed to such special category individuals has been withdrawn by the Finance Act,2002.

**Rebate to Senior Citizens:**

(18) Under Section 88B, an assessee, being an individual resident in India, who is of the age of sixty five years or more at any time during the previous year shall be entitled to a deduction from the amount of income tax (ascomputed before allowing the deductions under ChapterVIII)on his total income, with which he is chargeable forany assessment year, of an amount equal to One hundred percent of such income tax or an amount of fifteen thousandrupees, whichever is less.

**Rebate to Woman Residents:**

(19) Under Section 88C, as inserted by Finance Act, 2000, an assessee, being a woman resident in India, and below the age of sixty-five years, at any time during the previous year , shall be entitled to a deduction from the amount of income-tax (as computed before allowing the deductions under Chapter VIII) on her total income, with which she is chargeable for any assessment year, of an amount equal to hundred percent, of such income tax or an amount of five thousand rupees, whichever is less.

**DDOs to Satisfy Themselves of the genuineness of Claim:**

(20) The Drawing and Disbursing Officers should satisfy themselves about the actual deposits/subscriptions / payments made by the employees, by calling for such particulars/information as they deem necessary before allowing the aforesaid rebate. In case the DDO is not satisfied about the genuineness of the employee's claim regarding any deposit/subscription/payment made by the employee, he should not allow the same, and the employee would be free to claim the rebate on such amount by filing his return of income and furnishing the necessary proof etc., therewith, to the satisfaction of the Assessing Officer.

## 7. CALCULATION OF INCOME-TAX TO BE DEDUCTED:

7.1 Salary income for the purpose of Section 192 shall be estimated as follow:-

(a) First compute the gross salary as mentioned in para 5.1 excluding all the incomes mentioned in para 5.2;

(b) Allow deductions mentioned in para 5.3 from the figure arrived at (a) above.

(c) Allow deductions mentioned in para 5.4 from the figure arrived at (b) above ensuring that aggregate of the deductions mentioned in para 5.4 does not exceed the figure of (b) and if it exceeds, it should be restricted to that amount.

This will be the amount of income under the head "Salaries" on which income tax would be required to be deducted. This income should be rounded off to the nearest multiple of ten rupees.

7.2 Income-tax on the estimated income from salary as shown in para 7.1 shall be calculated at the rates given in para 2.

7.3 The amount of tax rebates computed under para 6 shall be deducted from the income-tax calculated according to para 7.2. However, it is to be ensured that the tax rebates given as per para 6 is limited to the income-tax calculated as per para 7.2. Further, tax payable so arrived at shall be increased by surcharge at the rate of five per cent to arrive at the total tax payable.

7.4 It is also to be noted that deductions under Chapter VIA of the Act as mentioned in para 5.4 and the tax rebates as mentioned in para 6 are allowed only if the investments or the payments have been made out of the income chargeable to tax during the financial year 2002-2003.

7.5 The amount of tax as arrived at para 7.3 should be deducted every month in equal installments. The net amount of tax deductible should be rounded off to the nearest rupee.

## 8. MISCELLANEOUS:

8.1 These instructions are not exhaustive and are issued only with a view to helping the employers to understand the various provisions relating to deduction of tax from salaries. Wherever there is any doubt, reference may be made to the provisions of the Income-tax Act, 1961, the Income-tax Rules, 1962 and the Finance Act, 2002.

8.2 In case any assistance is required, the Assessing Officer/the local Public Relation Officer of the Income-tax Department may be contacted.

8.3 These instructions may please be brought to the notice of all Disbursing Officers and Undertakings including those under the control of the Central/State Governments.

8.4 Copies of this Circular are available with the Director of Income-tax(Research, Statistics & Publications and Public Relations) 6th Floor, Mayur Bhavan, Indira Chowk, New Delhi-110 001.

(K.Sasikanthan)
Under Secretary(IT-B)
Central Board of Direct Taxes

1. All State Governments(including Administration of Union Territories)

2. All Ministries/Departments of Government of India etc.

3. President's Secretariat

4. Vice-President's Secretariat

5. Prime Minister's Office

6. Lok Sabha Secretariat

7. Rajya Sabha Secretariat

8. Cabinet Secretariat

9. Secretary, U.P.S.C., Dholpur House, New Delhi

10. Secretary, Staff Selection Commission, Lodhi Complex, New Delhi

11. Supreme Court of India, New Delhi

12. Election Commission, New Delhi

13. Planning Commission, New Delhi

14. Secretariat of Governors/Lt.Governors of all States/Union Territories

15. All Integrated Financial Advisors to Ministries/Departments of Government of India

16. All Heads of Departments & Offices subordinate to the Department of Revenue CBDT, CBEC etc.

17. Army Headquarters, New Delhi

18. Air Headquarters, New Delhi

19. Naval Headquarters, New Delhi

20. Director-General of Posts & Telegraphs, New Delhi(10 copies)

21. Comptroller & Auditor General of India (50 copies)

22. Accountant General - I, Andhra Pradesh, Hyderabad

23. Accountant General-II, Andhra Pradesh, Hyderabad

24. Accountant General, Assam, Shillong

25. Accountant General-I, Bihar, Ranchi

26. Accountant General-II, Bihar, Patna

27. Accountant General-I, Gujarat, Ahmedabad

28. Accountant General-II, Gujarat, Rajkot

29. Accountant General, Kerala, Trivandrum

30. Accountant General, Madhya Pradesh, Gwalior

31. Accountant General, Tamil Nadu, Chennai

32. Accountant General-I, Maharashtra, Mumbai

33. Accountant General-II, Maharashtra, Nagpur

34. Accountant General, Karnataka, Bangalore

35. Accountant General, Orissa, Bhubneshwar

36. Accountant General, Punjab, Chandigarh

37. Accountant General, Himachal Pradesh, Simla

38. Accountant General, Rajasthan, Jaipur

39. Accountant General-I, II & III, Uttar Pradesh, Allahabad

40. Accountant General, West Bengal, Calcutta

41. Accountant General, Haryana, Chandigarh

42. Accountant General, Jammu & Kashmir, Srinagar

43. Accountant General, Manipur, Imphal

44. Accountant General, Tripura, Agartala

45. Accountant General, Nagaland, Kohima

46. Director of Audit(Central)Kolkatta

47. Director of Audit(Central Revenue), New Delhi

48. Director of Audit (Central), Mumbai

49. Director of Audit, Scientific & Commercial Department, Mumbai

50. All Banks (Public Sector, Nationalised including State Bank of India)

51. Secretary, Reserve Bank of India Central Office P.B.No.406, Mumbai-400001(25 copies for distribution to its Branches).

52. Accounts Officer, Inspector General of Assam Rifles ,

(Hqrs), Shillong

53. All Chambers of Commerce & Industry

54. Lok Sabha /Rajya Sabha Secretariat Libraries(15 copies each)

55. All Officers and Sections in Techinical Wing of CBDT

56. Controller of Accounts, Department of Economic Affairs, New Delhi

57. Manager, Reserve Bank of India, Public Debt Office, Ahmedabad/Bangalore/Bhubneshwar/Mumbai(Fort)/ Mumbai(Central)/Mumbai-8, Kolkatta/Hyderabad/Kanpur/ Jaipur/Chennai/Nagpur/NewDelhi/Patna/Guwahati/ Trivandrum

58. Asst.Chief Inspector, R.B.I. Inspection Department Regional audit Cell/Mumbai/Kolkatta/Chennai/New Delhi/Kanpur

59. Accountant General, Post & Telegraph, Simla

60. Controller General of Defence Accounts, New Delhi

61. Dir.of Audit, Defence Services, New Delhi

62. World Health Organisation, New Delhi

63. International Labour Office, India Branch, New Delhi

64. Secretary, Indian Red Cross Society, India, New Delhi

65. Atomic Energy Department, Mumbai

66. Secretary, Development Board, Ministry of Commerce & Industry, New Delhi

67. National Savings Organisation, Nagpur

68. Deputy Accountant General, Post & Telegraph, Kolkatta

69. The Legal Adviser, Export - Import Bank of India, Post Box No.19969, Nariman Point, Mumbai-400021

70. The Deputy Finance Manager(Headquarters), Indian Airlines(H) - Airlines House, 11, Gurudwara Rakabganj Road, New Delhi-110001

71. Manager, State Bank of India, Local Head Office:-

    i) Jeevan Deep Building, 1,Middleton Street, Kolkatta

    ii)Circle Top House, Rajaji Salai, Chennai-600001

    iii)Lucknow, Uttar Pradesh

iv) Bank Street, Hyderabad-500001

v) Hamida Road, Bhopal-462001

vi)Shop Nos.101 to 105, Sector 17-B, Chandigarh

vii)New Amn.Building, Madam Cama Road, Mumbai-400021

viii) 9, Parliament Street, New Delhi-110001

ix) Bhedru, Ahmedabad-380001

x) Judges Court Road, Post Box No.103, Patna-800001

xi) 59, Forest Park, Bhubneshwar and Gauhati, Assam

xii) Gauhati, Assam

72. Chief Controller of Accounts, CBDT, Lok Nayak Bhawan, Khan Market, New Delhi

73. State Bank of Patiala, (Head Office), The Mall, Patiala

74. State Bank of Bikaner and Jaipur, Head Office, Tilak Marg, 'C' Scheme Jaipur

75. State Bank of Hyderabad, Head Office, Gun Factory, Hyderabad

76. State Bank of Indore, 5 Yashwant Nivas Road, Indore.

77. State Bank of Mysore (Head Office), K.G.Road, Bangalore

78. State Bank of Saurashtra, Behind Satyanarayan Road, Bhavnagar, Gujarat

79. State Bank of Travancore, Post Box No.34, Trivandrum

80. N.S.Branch, Department of Economic Affairs, New Delhi

81. The Editory, 'The Income-tax Reporter' Company Law Institute of India (P) Ltd., 88, Thyagaraja Road, Thyagaraja Nagar, Chennai-600017

82. The Editor, Chartered Secretary, The Institute of Company Secretaries of India, 'ICSI House, 22, Institutional Area, Lodhi Road, New Delhi-110003

83. The Editor, "Taxation" 174, Jorbagh, New Delhi

84. The Editor, "The Tax Law Review" Post Box No.152, Jallandhar-144001

85. The Editor, "Taxmann" Allied Services (P)Ltd., 1871, Kucha Chelan, Khari Baoli, Delhi-110006

86. The Min. of Law (Deptt. of Legal Affairs), Shastri

Bhawan New Delhi.

87. Food Corporation of India, 16-17, Barakhamba Lane, New Delhi-110001

88. IFCI, Bank of Baroda Building, 16, Parliament Street, New Delhi

89. IDBI, IDBI Tower, Cuff Parad, Mumbai-400 005

90. ICICI, 163, Backbay Reclamation, Mumbai-20

91. NABARD, Poonam Chambers,Dr.Annie Besant Road, P.B.No.552,Worli, Mumbai

92. National Housing Bank, 3rd Floor, Bombay Life Building, 45, Veer Nariman Road, Mumbai

93. IRBI, 19, Netaji Subhash Road, Kolkatta

94. All Foreign Banks operating in India

95. Air India, New Delhi
96. University Grants Commission, Bahadur Shah Jafar Marg, New Delhi

97. The Deputy Director(Admn.), NSSO (FOD), Mahalonobis Bhavan, 6th Floor, 164, G.L.Tagore Road, Kolkata-700108

**ANNEXURE-I**

**Example 1**

Assessment Year 2003-2004

Calculation of Income tax in the case of an employee having gross salary income

i) Upto Rs.1,00,000/-
ii) More than Rs.1,00,000/- but less than Rs.5,00,000/- and
iii) Exceeding Rs.5,00,000

| **Particulars** | **(Rupees)** (i) | **(Rupees)** (ii) | **(Rupees)** (iii) |
|---|---|---|---|
| Gross Salary Income (Including allowances) | 1,00,000 | 5,00,000 | 6,00,000 |
| Contribution to G.P.F. | 10,000 | 20,000 | 30,000 |

**Computation of Total Income and tax payable thereon**

| | | | |
|---|---|---|---|
| Gross Salary | 1,00,000 | 5,00,000 | 6,00,000 |
| Less Standard Deduction U/s 16(i) | 30,000 | 20,000 | Nil |
| Taxabe Income | 70,000 | 4,80,000 | 6,00,000 |
| Tax thereon | 3,000 | 1,18,000 | 1,54,000 |
| **Less tax rebate u/s 88 :** | **3,000 (30%)** | **3,000 (15%)** | **Nil** |
| Income tax payable | NIL | 1,15,000 | 1,54,000 |
| Add surcharge @ 5% | | 5,750 | 7,700 |
| **Total tax payable** | | **1,20,750** | **1,61,700** |

**Example 2**

A.Y.2003-2004.

Calculation of Income Tax in the case of assessee having handicapped dependent.

**Particulars:**

| | | |
|---|---|---|
| 1. | Gross Salary | Rs.3,20,000 |
| 2. | Amount spent on treatement of dependent who is handicapped | Rs. 7,000 |
| 3. | Amount paid to LIC with regard to annuity for the maintenance of handicapped dependent | Rs. 40,000 |
| 4. | GPF Contribution | Rs. 25, 000 |
| 5. | LIP Paid | Rs. 10,000 |

**Computation of Tax**

| | | | |
|---|---|---|---|
| 1. | Gross Salary | | Rs.3,20,000/- |
| 2. | Less Standard Deduction | | 20,000/- |
| | | | Rs.3,00,000/- |
| | Less: Deduction U/s 80DD(1) (Restricted to Rs.40,000/- only) | | Rs. 40,000/- |
| | Taxable Income | | Rs.2,60,000/- |
| | Income Tax Thereon | | Rs. 52,000/- |
| | **Rebate U/s 88** | | |
| | GPF | 25,000/- | |
| | LIP | 10,000/- | |
| | **Total** | **35,000/-** | |
| | **Rebate @ 15% on Rs.35,000/-** | | **Rs. 5,250/-** |
| | Tax Payable | | Rs. 46,750/- |
| | Add: Surcharge @ 5% | | Rs. 2,338/- |
| | **Total tax Payable** | | **Rs. 49,088/-** |

## Example 3

A.Y. 2003-2004.

Calculation of Income Tax in the case of an employee where Medical treatment expenditure was borne by the employer.

**Particulars:**

| | | |
|---|---|---|
| 1. | Gross Salary | Rs.3,00,000/- |
| 2. | Medical Reimbursement by employer on the treatment of self and dependent family member | Rs. 30,000/- |
| 3. | Contribution of GPF | Rs. 20,000/- |
| 4. | LIP | Rs. 20,000/- |
| 5. | Repayment of House Building Advance | Rs. 25,000/- |
| 6. | Investment infrastructure Bond U/s 88(2)(xvi) | Rs.20,000/- |

**Computation of Tax**

| | | |
|---|---|---|
| Gross Salary | | Rs.3,00,000/- |
| Add: Perquisite in respect of reimbursement of Medical Expenses in excess of Rs.15,000/- in view of Sec. 17(2)(v) | | Rs. 15,000/- |
| | | Rs.3,15,000/- |
| Less: Standard Deduction | | 20,000/- |
| Taxable Income | | Rs.2,95,000/- |
| **Tax thereon** | | **Rs. 62,500/-** |
| **Rebate U/s 88:** | | |
| GPF | 20,000/- | |
| LIC | 20,000/- | |
| Repayment of HBA(Maximum) | | |
| investment in | 20,000/- | |
| infra-structural Bonds U/s 88(2)(xvi) | 20,000/- | |
| **Total** | **80,000/-** | |
| **Rebate @ 15% on Rs.80,000** | | **Rs. 12,000/-** |
| Tax Payable | | Rs. 50,500/- |
| Add: Surcharge @ 5% | | Rs. 2,525/- |
| **Total Tax Payable** | | **Rs. 53,025** |

**Example 4**

A.Y. 2003-2004.

Illustrating calculation of House Rent Allowance U/s 10 (13A) in respect of residential accommodation situated in Delhi

**PARTICULARS**

| | | |
|---|---|---|
| 1. | Salary | Rs.49,500/- |
| 2. | Dearness Allowance | Rs.43,680/- |
| 3. | House Rent Allowance | Rs. 9,600/- |
| 4. | C.C.A | Rs. 1,200/- |
| 5. | House rent paid | Rs.18,000/- |
| 6. | General Provident Fund | Rs.24,000/- |
| 7. | Life Insurance Premium | Rs. 2,500/- |
| 8. | Cumulative Time Deposit | Rs. 2,400/- |
| 9. | Subscription to Infrastructure Bonds | Rs.10,000/- |

**Computation of total income and tax payable thereon**

| | | | |
|---|---|---|---|
| 1. | Salary + D.A. + C.C.A. | | Rs.94,380/- |
| | House Rent Allowance | | Rs. 9,600/- |
| 2. | Total Salary income | | Rs.1,03,980/- |
| 3. | Less: House Rent allowance exempt U/s 10(13A):Least of<br>a. Actual amount of HRA received=9600<br>b. Expenditure of rent in excess of 10% of salary (including D.A. as presumed that D.A. is taken for retirement benefit)<br>(18000-9318=8682)<br>c.50% of Salary(+Basic)<br>Rs.46,590 | | Rs. 8,682/- |
| | | | Rs.95,298/- |
| | Less standard deduction U/s 16 (i) @ 33.33% or 30,000/- whichever is less | | Rs.30,000/- |
| | Total Income (rounded off) | | Rs.65,300/- |
| | Tax on total income | | Rs. 2,060/- |
| | Rebate U/s 88 | | |
| | GPF | :24,000/- | |
| | LIP | : 2,500/- | |
| | CTD | : 2,400/- | |
| | Subscription to Infr. Structure Bonds U/s 88(2)(xvi) | : 10,000/- | |
| | **Total:** | **: 38,900** | |
| | Rebate @ 30% | 11,670/- | |
| | Tax on total income | | Rs. 2,060/- |
| | Less: Tax Rebate restricted to Rs.2,060 | | Rs. 2,060/- |
| | **Tax Payable** | | **NIL** |

## Example 5

A.Y.2003-2004.

Illustrating valuation of perquisite and calculation of tax in the case of an employee of a private company in Mumbai who was provided accommodation in a flat at concessional rate for ten months and in a hotel for two months. Employee owns a car (cubic capacity of engine exceeds 1.6l) used partly for personal and partly for official work and actual running and maintenance charges including chauffer's salary are reimbursed by employer, but no documents are maintained regarding details of journeys -

| | | | |
|---|---|---|---|
| 1. | Salary | : | Rs.1,08,000/- |
| 2. | Bonus | : | Rs. 12,000/- |
| 3. | Free gas, electricity, water etc. (Actual bills paid by company) | : | Rs. 6,000/- |
| 4(a) | Furnished flat provided to the employee for which actual rent paid by the company per annum | : | Rs. 78, 000/- |
| 4(b) | Hotel rent paid by employer (for two months) | : | Rs. 30,000/- |
| 4(c) | Rent recovered from employee | : | Rs. 5,000/- |
| 5. | Car expenses reimbursed | : | Rs. 40,200/- |
| 6. | Furniture at cost | : | Rs. 50,000/- |
| 7. | Subscription to infrastructure bonds u/s 88(2)(xvi) | : | Rs. 30,000 /- |
| 8. | Life Insurance Premium | : | Rs. 3,000/- |
| 9. | Subscription to NSC (VIII) Issue | : | Rs. 18,000/- |
| 10. | Contribution to recognised P.F. | : | Rs. 24,000/- |

### COMPUTATION OF TOTAL INCOME AND TAX PAID THEREON:

| | | | |
|---|---|---|---|
| 1. | Salary | : | Rs. 1,08,000/- |
| 2. | Bonus | : | Rs. 12,000/- |
| | Total Salary for Valuation of Perquisite ie; Rs.10,000 per month | : | Rs. 1,20,000/- |

### Valuation of perquisites

| | | | |
|---|---|---|---|
| (a) | Perq. for flat: Lower of (10% of salary for ten months=Rs.10,000/-actual rent paid=65000) | : | Rs.10,000/- |
| (b) | Perq. for hotel Less of (24% of salary of 2 mths=4800, actual payment=30,000) | : | Rs. 4,800/- |
| (c) | Perq for furniture @ 10% | : | Rs. 5000/- |
| | | | Rs. 19,800 |

| | | |
|---|---|---|
| Less: rent recovered from employee: | Rs. 5,000/- | |
| | Rs. 14,800 | |
| (d) Add perq. for free gas, elec. water | Rs. 6,000/- | |
| (e) Add perq. for car expense reimbursement (40,200-12(1600+600) | Rs. 13,800/- | |
| **Total perquisites:** | **Rs. 34,600** | |
| Gross Total Income (1,20,000+34,600) | | Rs. 1,54,600/- |
| Less: Standard Deduction U/s 16(i) | | Rs. 25,000/- |
| Total Income | | Rs. 1,29,600/- |
| Tax on Total income | | Rs. 14,920/- |
| **Tax Rebate U/s 88** | | |
| Provident Fund | :24,000 | |
| Subscription to NSC VIII Issue | : 18,000 | |
| LIP | : 3,000 | |
| Contribution to infrastructure Bond | :30,000 | |
| **Total:** | **75,000** | |
| **Tax Rebate @ 20%** | **15,000** | |
| Tax on Total income | | Rs. 14,920/- |
| Tax rebate(restricted) | | Rs. 14,920/- |
| **Tax Payable** | | **Nil** |

**Example 6** A.Y.2003-2004.

Illustrating Valuation of perquisite and calculation of tax in the case of an employee of a Private Company posted at Delhi and repaying House Building Loan.

**Particulars:**

| | | |
|---|---|---|
| 1. | Salary | : Rs.1,18,000/- |
| 2. | Dearness Allowance | : Rs. 36,000/- |
| 3. | House rent allowance | : Rs. 12,000/- |
| 4. | Special duties Allowance | : Rs. 2,400/- |
| 5. | Provident Fund | : Rs. 20,000/- |
| 6. | LIP | : Rs. 10,000/- |
| 7. | Deposit in NSC VII issue | : Rs. 20,000/- |
| 8. | Rent Paid by the employee for house hired by him | : Rs. 24,000/- |
| 9. | Repayment of House Building loan taken by the employee from LIC | : Rs. 12,000/- |
| 10. | Subscription to eligible issue of capital of a Co. approved U/s 88(2)(xvi) | : Rs. 20,000/- |

**Computation of total income and tax payable thereon**

| | | | |
|---|---|---|---|
| 1. | Gross salary : | | Rs.1,68,400/- |
| | Less: House rent allowance exempt U/s 10 (13A) | | |
| | a. Actual amount of HRA received | 12,000 | |
| | b. Expenditure on rent in excess of 10% of salary (Including D.A.)as personal D.A. is including for retirement benefits 8600) | 8,600 | |
| | c.50% of salary (including D.A) | 77,000 | (-) 8,600/- |
| | Total salary Income | | : 1,59,800/- |
| | Less : Standard Deduction | | : 25,000/- |
| | Total Taxable Income | | : 1,34,800/- |
| | **Tax on total Income** | | : **15,960/-** |

**Tax rebate U/s 88**

| | | | | |
|---|---|---|---|---|
| i. | Provident Fund | : 20,000 | | |
| ii. | LIP | : 10,000 | | |
| iii. | NSC VIII Issue | : 20,000 | | |
| iv. | Repayment of HBA | : 12,000 | | |
| v. | Subscription to eligible issue of Co. approved U/s 88(2)(xvi) | : 20,000 | | |
| | **Total:** | **82,000** | | |
| | **Rebate @ 20% =** | | **16,200** | **15,900/- (restricted)** |

**Net Tax Payable** **NIL**

## Example 7

A.Y.2003-2004.

Income Tax calculation in the case of an employee who claims loss under the head income from house property.

**Particulars:**

| | | |
|---|---|---|
| 1. | Gross salary | : 4,00,000 |
| 2. | Housing Loan repaid(Principal) | : 30,000 |
| 3. | Interest payable on housing loan (Loan taken after 01.04.1999) | : 2,00,000 |
| 4. | Donation paid to National Children fund | : 5,000 |
| 5. | NSC Purchased | : 10,000 |
| 6. | GPF | : 20,000 |

**Computation of taxable income and tax thereon:**

| | | | |
|---|---|---|---|
| 1. | Salary Income | | : Rs.4,00,000 |
| | Gross salary | | |
| | Less : Standard Deduction | | : Rs. 20,000 |
| | Taxable salary | | : Rs.3,80,000 |
| 2. | Income from house property | | |
| | Annual value | Nil | |
| | Interest payable on loan U/s 24 | 2,00,0000 | |
| | Loss from House property (Maximum allowable) | | : Rs.1,50,000/- |
| | Gross total income | | : Rs.2,30,000/- |
| | Less Deduction U/s 80G 50% of Rs.5,000/- | | Rs. 2,500/- |
| | Net Taxable Income | | Rs.2,27,500/- |
| | Tax thereon | | Rs. 42,250/- |
| | Less Rebate U/s 88 | | |
| | GPF | :20,000 | |
| | NSC | :10,000 | |
| | Housing Loan repaid | :20,000 | |
| | **Total** | **50,000** | |
| | **Rebate @ 15% of Rs.50,000/-** | | **: Rs. 7,500/-** |
| | Tax Payable | | : Rs. 34,750/- |
| | Add: surcharge @ 5% | | : Rs. 1,738/- |
| | **Total tax payable** | | **: Rs.43,988/-** |

## EXAMPLE – 8

A.Y.2003-2004.

Income Tax calculation in the case of an employee who claims loss under the head Income from house property, loan taken before 1.4.99.

**Particulars:**

| | | |
|---|---|---|
| 1. | Gross Salary | 4,00,000 |
| 2. | Housing Loan repaid (Principal) | 30,000 |
| 3. | Interest payable on housing loan (Loan taken after 01.04.1999) | 2,00,000 |
| 4. | Donation paid to National Children's Fund | 5,000 |
| 5. | N.S.C. purchased | 10,000/- |
| 6. | G.P.F. | 20,000/- |

**Computation of Taxable Income and tax thereon**

| | | | |
|---|---|---|---|
| 1. | Salary Income | | Rs.4,00,000 |
| | Gross Salary | | |
| | Less: Standard deduction | | Rs. 20,000/- |
| | | | ------------ |
| | Taxable Salary | | Rs.3,80,000/- |
| 2. | Income from House Property | | |
| | Annual value : | Nil | |
| | Interested payable on loan u/s 24: 2,00,000 | | |
| | Loss from House property (Maximum allowable for loans taken before1.4.99) | | Rs.30,000/- |
| | | | ------------- |
| | Gross total income | | Rs.3,50,000/- |
| | Less Deduction U/s 80G 50% of Rs. 5,000/- | | Rs. 2,500/- |
| | | | -------- |
| | **Net Taxable Income** | | **Rs.3,47,500/-** |
| | | | ---------- |
| | **Tax thereon** | | **Rs. 78,250/-** |
| | **Less Rebate U/s 88** | | |
| | G.P.F. | 20,000 | |
| | N.S.C. | 10,000 | |
| | Housing Loan repaid(maximum) | 20,000 | |
| | | ----------- | |
| | Total: | 50,000 | |
| | | ------------ | |
| | **Rebate @ 15% of Rs. 50,000/-** | | **Rs. 7,500/-** |
| | Tax payable | | Rs. 70,750/- |
| | Add: Surcharge @ 5% | | Rs. 3,538/- |
| | | | ------------ |
| | **Total Tax payable** | | **Rs. 74,228/-** |
| | | | ----------- |

**EXAMPLE - 9**

A.Y.2003-2004

Income Tax calculation in the case of a women assessee who is less than age of 65 years.

| **Particulars** | (Rupees) |
|---|---|
| Gross Salary | 1,20,000 |
| G.P.F. | 10,000 |
| N.S.C. purchased | 10,000 |

**Computation of Taxable Income and Tax thereon**

| | | |
|---|---|---|
| Gross Salary | | 1,20,000 |
| Less: Standard deduction u/s 16(i) | | 30,000 |
| Taxable Income | | 90,000 |
| **Tax thereon** | | **7,000** |
| **Less: Rebate u/s 88C(Being women)** | | **5,000** |
| **Less: Rebate u/s 88** | | |
| G.P.F. | 10,000 | |
| N.S.C. | 10,000 | |
| **Total** | **20,000** | |
| Rebate u/s 88 @ 20% of Rs.20,000/- = Rs.4,000 restricted to Rs.2000 | | **2,000** |
| **Tax payable** | | **Nil** |

***Note:- In the case of a women assessee who is of 65 years' age or more, she will be entitled to rebate only u/s 88B of the Act meant for Senior citizens and not u/s 88C of the Act.***

**ANNEXURE-II**

**Form for sending particulars of income u/s 192(2B) for the year ending 31st March 2002**

1. Name and address of the employee

2. Permanent Account Number

3. Residential status

4. Particulars of income under any head of income other than "salaries" (not being a loss under any such head other than the loss under the head "Income from house property") received in the financial year.

(i) Income from house property -------------------

(in case of loss, enclose computation thereof)

(ii) Profits and gains of business or profession -------------------

(iii) Capital gains -------------------

(iv) Income from other sources

(a) Dividends
(b) Interest
(c) Other incomes (Specify)

Total -------------------

5. Aggregate of sub-items (i) to (iv) of item 4

6. Tax deducted at source (enclose certificates) issued under Section 203)

Place------------------

Date -----------------

-------------------
Signature of the employee

**Verification**

I, ----------------------------------------, do hereby declare that what is stated above is true to the best of my knowledge and belief.

Verified today, the ------------------ day of ------------------2002.

Place------------------

Date------------------

-------------------
Signature of the employee

F.No.142/47/98-TPL Sd/-
NOTIFICATION NO. 10722 **( SUNITI SRIVASTAVA)**
Under Secretary to the Govt. of India

---------------------------------------------------------------------------------

The principal rules were published vide notification No. S.O. 969(E) dated 26.3.1962 and were last amended vide notification NO. SO. 897(E) dated 12.10.98.

**ANNEXURE-III**

TO BE PUBLISHED IN THE GAZETTE OF INDIA EXTRAORDINARY
PART II, SECTION 3, SUB-SECTION(ii) DATED

GOVERNMENT OF INDIA
MINISTRY OF FINANCE AND COMPANY AFFAIRS
DEPARTMENT OF REVENUE
(CENTRAL BOARD OF DIRECT TAXES)

New Delhi, the 4th day of October , 2002.

**NOT IFICATION**
**INCOME TAX**

S.O. 1062(E) (E) - In exercise of powers conferred by section 295, read with clause (2) section 17 and sub-section (2C) of section 192 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely :-

1. (1) These rules may be called the Income-tax( Amendment) Rules, 2002.

(2) They shall be deemed to have come into force on the 1st day of June 2002.

2. In the Income-tax Rules, 1962, -

(i) in rule 26A, in sub-rule(2) for clause (b), the following clause shall be substituted, namely :-

"(b) Form No. 12BA, if the amount of salary paid or payable to the employee is more than one lakh and fifty thousand rupees, which shall accompany the return of income of the employee.";

(ii) in rule 30, -

(a) in the heading, for the words " tax deducted at source", the words, "tax deducted at source or tax paid under sub-section (1A) of section 192", shall be substituted;

(b) after sub-rule (1), the following shall be inserted:-

"(1A) All sums paid under sub-section (1A) of section 192 shall be paid to the credit of the Central Government -

(a) in the case of payment on behalf of the Government, on the same day;

(b) in all other cases, within one week from the last day of each month on which the income-tax is due under sub-section (1B) of section 192;";

(c) in sub-rule (2), -

I) after the words, "under the head "salaries" or," insert the words "the person who pays tax, referred to in sub-section (1A) of section 192 or,"

II) in the proviso, for the word "deduction" substitute the words "deduction or payment, as the case may be,";

(iii) in rule 31,-

(a) in the heading, for the words " tax deducted at source", the words, "tax deducted at source or tax paid under sub-section (1A) of section 192", shall be substituted;

(b) in sub-rule (1), for the words "The certificate of deduction of tax at source under section 203", the words "The certificate of deduction of tax at source or, the certificate of payment of tax by the employer on behalf of the employee, under section 203", shall be substituted;

(c) in the second proviso to sub-rule (3), for the words, "that the certificate in the case of deduction of tax under section 192", the words, ", "that the certificate in the case of deduction of tax under sub-section (1) of section 192 or, payment of tax by the employer on behalf of the employee, under sub-section (1A), of that section", shall be substituted;

(iv) in Appendix-II, -

(a) after Form No.12B, the following Form shall be inserted, namely:-

**ANNEXURE-III-A**

" **FORM NO.12BA**
**{See rule 26A(2)(b)}**

**Statement showing particulars of perquisites, other fringe benefits or amenities and profits in lieu of salary with value thereof**

1) Name and address of employer :

2) TAN

3) TDS Assessment Range of the employer :

4) Name, designation and PAN of employee :

5) Is the employee a director or a person with :
substantial interest in the company
(where the employer is a company)

6) Income under the head "Salaries" of the employee :
(other than from perquisites)

7) Financial Year :

8) Valuation of Perquisites

| S.No | Nature of perquisite (see rule 3) | Value of perquisite as per rules (Rs.) | Amount, if any recovered from the employee (Rs.) | Amount of perquisite chargeable to tax Col(3) - Col(4) |
|---|---|---|---|---|

| | | | | (Rs.) |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| 1 | Accommodation | | | |
| 2 | Cars/Other automotive | | | |
| 3 | Sweeper, gardener, watchman or personal attendant | | | |
| 4 | Gas, electricity, water | | | |
| 5 | Interest free or concessional loans | | | |
| 6 | Holiday expenses | | | |
| 7 | Free or concessional travel | | | |
| 8 | Free meals | | | |
| 9 | Free Education | | | |
| 10 | Gifts, vouchers etc. | | | |
| 11 | Credit card expenses | | | |
| 12 | Club expenses | | | |
| 13 | Use of movable assets by employees | | | |
| 14 | Transfer of assets to employees | | | |
| 15 | Value of any other benefit/amenity/service/privilege | | | |
| 16 | Stock options (non-qualified options) | | | |
| 17 | Other benefits or amenities | | | |
| 18 | Total value of perquisites | | | |
| 19 | Total value of Profits in lieu of salary as per 17(3) | | | |

9. Details of tax, -
   - (a) Tax deducted from salary of the employee u/s 192(1) ………
   - (b) Tax paid by employer on behalf of the employee u/s 192(1A) ………
   - (c) Total tax paid ………
   - (d) Date of payment into Government treasury ………

**DECLARATION BY EMPLOYER**

I ………………. s/o …………………. working as ……………………………(designation) do hereby declare on behalf of ……………..….. (name of the employer) that the information given above is based on the books of account, documents and other relevant records or information available with us and the

details of value of each such perquisite are in accordance with section 17 and rules framed thereunder and that such information is true and correct.

Signature of the person responsible
for deduction of tax

Place…
Date…

Full Name ……………………
Designation …………………. ";

(b) for Form No.16, the following Form shall be substituted, namely :-

**ANNNEXURE –III-B**

" **FORM NO.16**
**{See rule 31(1)(a)}**

**Certificate under section 203 of the Income-tax Act, 1961 for tax deducted at source from income chargeable under the head " Salaries"**

<table>
<tr><td colspan="2">Name and address of the employer<br><br>…………..<br>…………..<br>…………..</td><td colspan="3">Name and designation of the employee<br><br>…………….<br>…………….<br>…………….</td></tr>
<tr><td>PAN/GIR NO.</td><td>TAN</td><td colspan="3">PAN/GIR NO.</td></tr>
<tr><td colspan="2" rowspan="2">TDS Circle where annual return/statement under section 206 is to be filed</td><td colspan="3">Period</td></tr>
<tr><td>From</td><td>To</td><td>Assessment year ………</td></tr>
</table>

DETAILS OF SALARY PAID AND ANY OTHER INCOME AND TAX DEDUCTED

| | | | |
|---|---|---|---|
| 1. Gross Salary | | | |
| a) Salary as per provisions contained in sec.17(1) | Rs …… | | |
| b) Value of perquisites u/s 17(2) (as per Form No.12BA, wherever applicable) | Rs …… | | |
| c) Profits in lieu of salary under section 17(3)(as per Form No.12BA, wherever applicable) | Rs …… | | |
| d) Total | | Rs……. | |
| 2. Less: Allowance to the extent exempt u/s 10 | Rs ……<br>Rs …… | | |

| | | | |
|---|---|---|---|
| | Rs …… | Rs……. | |
| 3. Balance(1-2) | | Rs…….. | |
| 4. Deductions :<br>a) Standard deduction Rs ………<br>b) Entertainment allowance Rs ………<br>c) Tax on employment Rs ……… | | | |
| 5. Aggregate of 4(a) to (c) | Rs …….. | | |
| 6. Income chargeable under the head 'salaries' (3-5) | | | Rs ……… |
| 7. Add: Any other income reported by the employee | Rs ……..<br>Rs …….<br>Rs ……. | | Rs ……… |
| 8. Gross total income (6+7) | | | Rs ……… |
| 9. Deductions under Chapter VIA<br>Gross Amount | Qualifying Amount | Deductible Amount | |
| a) Rs …………… | Rs ……….. | Rs ……….. | |
| b) Rs …………... | Rs ………. | Rs ……….. | |
| c) Rs ………….. | Rs ……….. | Rs ……….. | |
| d) Rs …………. | Rs ………. | Rs ……….. | |
| 10. Aggregate of deductible amount under Chapter VIA | | | Rs ………… |
| 11. Total Income (8-10) | | | Rs ………… |
| 12. Tax on total income | | | Rs ………… |
| 13. Rebate and relief under Chapter VIII<br>I. Under section 88<br>(please specify)<br>Gross Amount | Qualifying Amount | Tax rebate/ relief | |
| (a) Rs ……..… | Rs ……….. | | |
| (b) Rs ….…… | Rs ……….. | | |
| (c) Rs………… | Rs ……….. | | |
| (d) Rs………… | Rs ……….. | | |
| (e) Rs…...…… | Rs ……….. | | |
| (f) Total[(a) to (e)] Rs.………… | Rs ……… | Rs ………. | |
| II (a) Under section 88B | | Rs ………. | |

| | | | |
|---|---|---|---|
| (b) Under section 88C<br><br>III. Under section 89<br>(attach details)<br>14. Aggregate of tax rebates and relief at 13 above [I(f) + II(a)+ II(b) + III]<br>15. Tax payable (12-14) and surcharge thereon<br>16 Less: a) Tax deducted at source u/s 192(1)<br>b) Tax paid by the employer on behalf of the employee u/s 192(1A) on perquisites u/s 17(2)<br>17. Tax payable/refundable (15-16) | | Rs ……….<br><br>Rs ……….<br><br><br><br>Rs………..<br><br><br>Rs……….. | <br><br><br><br>Rs ………..<br>Rs ………..<br><br><br><br>Rs ………..<br>Rs ……….. |

DETAILS OF TAX DEDUCTED AND DEPOSITED INTO CENTRAL GOVERNMENT ACCOUNT

| Amount | Date of payment | Name of bank and branch where tax deposited |
|---|---|---|
| | | |

I …………………. son of ……………. working in the capacity of ……… (designation) do hereby certify that a sum of Rs…….[Rupees ……………(in words)] has been deducted at source and paid to the credit of the Central Government. I further certify that the information given above is true and correct based on the book of accounts, documents and other available records

Place… ……………………..

Date…. Signature of the person responsible for deduction of tax

Full Name ……………………

Designation …………………."."

Notification No. .294/2002 F. No.142/20/2002-TPL
Dr. DHEERAJ BHATNAGAR, Director

**Explanatory Memorandum**

1. Section 192 provides for the deduction of TDS on salary income. The Finance Act 2002 has amended section 192 by inserting sub-clause (1A), whereby the person responsible for paying any income in the nature of perquisite referred to in clause 2 of section 17, may at his option, pay tax on the whole or part of such income without making any deduction therefrom at the time when such tax was otherwise deductible under section 192(1). Therefore the existing Rules 30 and 31, are being amended to make reference to the tax paid by the employer on behalf of the employee, under Section 192(1A).

2. Rule 26A, requires the employer to provide to the employee a certificate in Form No. 12BA for the employee earning salary above 1,50,000, and in Form No. 16 in case of those employees earning salary of 1,50,000 or less, furnishing the details of perquisites provided. While it is mandatory to attach Form No. 16 with the Return of Income, there is no such requirement for Form 12BA which defeats its purpose Accordingly Rule 26A is being amended to provide for the same.

3. Form No. 16 and Form No. 12BA are being modified to include reference to tax paid by the employer on behalf of the employee under section 192(1A) and also to include the TAN of the employer and the PAN of the employee, which were not asked for earlier.

4. It is certified that the retrospective application of the above amendments to Rules 26A, 30, 31 and Forms 16 and 12BA, shall not prejudicially affect the interest of any assessee.

---

**Note**: The principal rules were published under Notification No. S.O. 969 dated 26.3.1962 which has been amended from time to time and the last such amendment was made vide notification number 243/2002 dated 10.9.2002.

**ANNEXURE-IV A**

MINISTRY OF FINANCE
**(Department of Revenue)**
(Central Board of Direct Taxes)
Notification

New Delhi, the 24th November, 2000

**INCOME- TAX**

**S.O.1048 (E)** - In exercise of the powers conferred by sub-clause (i) of clause (18) of Section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government, hereby specifies the gallantry awards for the purposes of the said Section, mentioned in column 2 of the table below awarded in the circumstances as mentioned in corresponding column 3 thereof:-

**Table**

| Sl. No. | Name of gallantry award | Circumstances for eligibility |
|---|---|---|
| (1) | (2) | (3) |
| 1. | Ashok Chakra | When awarded to Civilians for gallantry |
| 2. | Kirti Chakra | - do - |
| 3. | Shaurya Chakra | - do - |
| 4. | Sarvottan Jeevan Raksha Padak | When awarded to Civilians for bravery displayed by them in life saving acts. |
| 5. | Uttam Jeevan Raksha Medal | - do - |
| 6. | Jeevan Raksha Padak | - do - |
| 7. | President's Police Medal for gallantry | When awarded for acts of exceptional courage displayed by members of police forces, Central police or security forces and certified to this effect by the head of the department concerned. |
| 8. | Police Medal for Gallantry | - do - |
| 9. | Sena Medal | When awarded for acts of courage or conspicious gallantry and supported by certificate issued to this effect by relevant service headquarters. |
| 10. | Nao Sena Medal | - do - |
| 11. | Vayu Sena Medal | - do – |

| | | |
|---|---|---|
| 12. | Fire Secrvices Medal for Gallantry | When awarded for acts of courage Or conspicuous gallantry and supported By certificate issued to this effect by the Last Head of Department. |
| 13. | President's Police & Fire Services Medal for Gallantry | -do- |
| 14. | President's Fire Services Maedal for Gallantry | -do- |
| 15. | President's Home Guards and Civil Defence Medal for Gallantry | -do- |
| 16. | Home Guard and Civil Defence Medal for Gallantry | -do- |

( Notification no. 1156/F.No. 142/29/99-TPL)

**T.K. SHAH, Director**

ANNEXURE IV B

MINISTRY OF FINANCE
Department of Revenue
Central Board of Direct Taxes

New Delhi,the 29th January,2001

S.O.81(E)- In exercise of the powers conferred by sub-clause (i ) of clause (18) of Section 10 of the Income –tax Act, 1961 (43 of 1961)), the Central Government, hereby specifies the gallanty awards for the purposes of the said Section and for that purpose makes the following amendment in the notification of the Government of India in the Ministry of Finance, Department of Revenue (Central Board of Direct Taxes) number S.O.1048(E), dated the 24th November 2000, namely:-

In the said notification, in the Table, against serial numbers 1,2 and 3 under cloumn (3) relating to "Circumstances for eligibility" **the words** "to civilians" shall be omitted.

(Notification No.22/F.No.142/29/99-TPL)

**T.K. SHAH, Director**

**ANNEXURE-V**

**FORM NO. 10BA**
**(See rule 11B)**
**DECLARATION TO BE FILED BY THE ASSESSEE CLAIMING DEDUCTION U/S 80 GG**

I/We……………………………………………………………………
( Name of the assessee with permanent account number)
do hereby certify that during the previous Year………….I/We had occupied the premise………………………….(full address of the premise) for the purpose of my/our own residence for a period of…………………..months and have paid Rs. ………………. in cash/through crossed cheque, bank draft towards payment of rent to Shri/Ms/M/s……………………….(name and complete address of the landlord).

It is further certified that no other residential accommodation is owned by

(a) me/my spouse/my minor child/our family (in case the assessee is HUF), at ………………….where I/we ordinarily reside/perform duties of officer or employment or carry on business or profession, or
(b) me/us at any other place, being accommodation in my occupation, the value of which is to be determined u/s 23(2)(a)(i) of u/s 23(2)(b)".

Sd/-
(SUNITI SRIVASTAVA)
Under Secretary to the Govt. of India

(F.No. 142/47/98-TPL
Notification No. 10722)

---

The principal rules were published vide Noti.No.S.O.969 (E) dated 26.3.1962
And were last amended vide Notification No. S.O.897(E) dated 12.10.98.

**********